Statement of Accounts 2010/2011

BLACKBURN WITH DARWEN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2010/2011

Councillor Sheila Williams
Mayor

Councillor K Hollern
Council Leader

Councillor A Kay
Executive Member (Resources)

Audit Commission
Appointed Auditors

G Burgess
Chief Executive

E Hall CPFA
Director of Finance

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLACKBURN WITH DARWEN BOROUGH COUNCIL - 2010/2011

This version of the statement of accounts is presented in advance of Audit. The published version will include, on these pages, the audit certification.

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BLACKBURN WITH DARWEN BOROUGH COUNCIL STATUTORY STATEMENT OF ACCOUNTS 2010/2011

The statements which follow in pages 9 to 83 have been produced in accordance with Regulation 7 of the Accounts and Audit (England) Regulations 2011, and the Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements were authorised for issue by the Director of Finance on 29th June 2011, and do not reflect any events occurring after this date.

E Hall
Director of Finance

29th June 2011

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1.0 Overview and Summary

1.1 2010/11 has been a year of unprecedented challenges for this Council and indeed for local government as a whole. Following the May election, the new national government announced a programme to reduce the deficit. The Council's 2010/11 Area Based Grant was cut by £4M in year. Whilst the Council's Building Schools for the Future programme survived, the funding available for new schools was also reduced. The Chancellor, in the Spending Review 2010, set out his programme and identified at national level the reductions local government would face. In December the Secretary of State published the two year financial settlement for local authorities covering 2011/12 and 2012/13. It soon became clear that this Council would be one of the worst affected facing a £33M cut in government funding in 2011/12 alone.

1.2 The Council has therefore faced difficult choices and has made some hard decisions both in managing the resources available in 2010/11 and setting its 2011/12 budget and its Medium Term Financial Strategy in March 2011. Widespread consultation has taken place with residents, local businesses, voluntary and community groups, service users and customers and Council employees. Members and officers undertook a comprehensive programme of service reviews, identified both efficiencies and reductions and began to implement these following a Special Council meeting in January 2011. The 2011/12 budget, incorporating this programme was approved by Finance Council in March 2011. The Council has subsequently established a Transformation Programme and a Transformation Board to ensure that it achieves its programme and service reductions in 2011/12.

1.3 Members and officers of the Council had prepared for some government cuts albeit their actual extent and speed were unexpected. Decisions to address reductions in funding were taken and put in place swiftly. Applications for early retirement and voluntary redundancy were sought from staff during 2010/11 and were approved generating a recurring saving of £2.682M. Members and managers reviewed their budgets, managed them prudently and identified efficiencies in 2010/11. The Council did however face several pressures particularly in both Children's and Adult Social Care. The Council has gained from some windfall income, such as its final dividend following the winding up of Intack Services Limited (the former bus company) and the government withdrawal of its claw back requirement on Urban Programme Grants. In addition there are some benefits from the early implementation of spending reductions. Therefore through careful management, the Council has been able to make a contribution to general and earmarked reserves of £2.984M in 2010/11 and will now be able to fund efficiency and investment programmes in future years, as well as meet some one-off costs in 2011/12. In addition reserves increased by £4.882M in respect of IFRS changes, £3.150M by schools and £2.576M for Regenerate Pennine Lancashire. Therefore the contribution to reserves in total was £13.592M (£10.444M shown in the Movement in Reserves Statement plus a £3.148M retrospective adjustment to the prior year Balance Sheet).

1.4 In 2010/2011 the Council has continued to invest heavily in the Borough's infrastructure. The "Mall" development opened and has led to an increase in footfall in Blackburn Town Centre. In May 2011 the new Market opened in the Shopping Centre. The Housing Market Renewal Programme continued to improve the housing stock of the borough. The Council will complete work in the Griffin area funding this itself following the end of the government funded Housing Market Renewal Programme. The Building Schools for the Future Programme has continued. Construction is well underway at Pleckgate and Darwen Vale and work has begun at New East Blackburn and Witton Park. The Council's new data centre has been built. Improvements have been made to the Council's roads, and plans for Freckleton Street Link Road are being progressed.

1.5 Stronger relationships have been built with the Council's partners. The Council and Capita have established a new way of managing Highways Services through an integrated service and are working to develop a similar structure for Customer Services, Revenues and Benefits. Capita and the Council have reviewed the services provided under their contract and have identified 10% efficiency savings in future years. Working together, a more accessible and convenient network of payment points has been established, leading to the closure of the Collection Halls at Blackburn and Darwen. A Care Trust Plus with the NHS in Blackburn with Darwen was established in March 2010 and has successfully completed its first year of operation. Integrated Management Structures are now in place with shared services established in Human Resources and Communications. This Council, working with other councils in East Lancashire has refocused its economic development activities and restructured Regenerate Pennine Lancashire, in the light of current economic conditions.

1.6 The Council's achievements have been recognised by others, most notably when the LGC awarded it "Council of the Year".

1.7 My staff in Finance have had a particular challenge in 2010/11 – the preparation of this Statement of Accounts under International Financial Reporting Standards. This means that there is a different format to last year, more extensive and comprehensive notes, changes in the accounting treatment of grants received in advance and of fixed assets as well as fuller disclosure of related party transactions. I would therefore like to thank the Head of Financial Services and his staff, Chief Officers, managers and elected members and the Council's auditors for the support they have given in preparing these accounts.

1.8 Finally on a personal note I would like to thank all Members especially the Executive Members for the way in which they have managed the resources entrusted to them and addressed the financial challenges that have arisen. I would also like to thank Councillor Andy Kay the Executive Member for Resources for his encouragement and support over the last year. My thanks also go to the Chief Executive all Directors and staff for their hard work and commitment during a difficult time. I would also like to mention Denise Park for the support she has given particularly in the last year. Finally I would like to record my thanks and best wishes for the future for all those who have left the Council over the last year, and who have contributed so much to its success.

2.0 Content of the Statement of Accounts

The purpose of this Financial Report is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts for the year ended 31st March 2011, and provide an explanation in overall terms of Blackburn with Darwen Borough Council's financial position as at that date.

The purpose of each accounting statement and the relationship between them are explained below.

2.1 Statement of Responsibilities

This sets out the respective responsibilities of the Council and the chief financial officer (i.e. the Director of Finance) in respect of the statement of accounts.

2.2 The Financial Statements

The objectives of financial statements are to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users. Specifically, for the Council financial reporting aims to provide information useful for decision making and to demonstrate its accountability for the resources entrusted to it.

The *complete set of financial statements* is defined within the Code of Practice on Local Authority Accounting in the UK (the Code) as comprising:

a) Movement in Reserves Statement for the period

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The *Surplus or (Deficit) on the Provision of Services* line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

The *Net Increase / Decrease before transfers to Earmarked Reserves* line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

b) Comprehensive Income and Expenditure Statement for the period

This statement shows the accounting cost in the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

c) Balance Sheet as at the end of the period

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is not available for the Council to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

Whenever the Council applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, it will be necessary to provide a third Balance Sheet. This will show balances as at the beginning of the earliest comparative period.

Adoption of the IFRS-based Code for the 2010/11 Statement of Accounts has resulted in the restatement of various balances and transactions, with the result that two prior year Balance Sheets have been produced – the usual prior year comparators as at 31 March 2010 and a third Balance Sheet as at 1 April 2009.

d) Cash Flow Statement for the period

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

e) Notes to the accounts

The notes are intended to:

- present information about the basis of preparation of the financial statements and the specific accounting policies used,
- disclose the information required by the Code of Practice on Local Authority Accounting (the Code) that is not presented elsewhere in the accounting statements, and
- provide any additional information and explanations that might be needed to make the financial statements more understandable to interested parties.

The statements described above are required to be given equal status in terms of their presentation, their positioning in the published document and the presentational emphasis they are given. By implication, other statements can be given lesser prominence.

2.3 Group Accounts

Local authorities with material interests in subsidiaries, associates and joint ventures are required to prepare group accounts in addition to their single entity financial statements.
Whilst the Council does have some associate company and joint venture interests, the financial implications of including these in a set of group accounts is not considered to be material to the understanding of the financial position of the Council, and group financial statements have not therefore been produced.

Information about these interests is, however, contained within the notes to the accounts.

2.4 Collection Fund

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing authority and the Government) on behalf of which the billing authority collects those taxes.

2.5 Annual Governance Statement

Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires authorities in England to conduct a review at least once a year of the effectiveness of its system of internal control. Following the review authorities are required to approve an annual governance statement and ensure that this accompanies the statement of accounts.

3.0 Borrowing Facilities and Capital Borrowing

3.1 The Council had an amount of £119.7M of long term borrowing outstanding at 31st March 2011, comprising £99.3M serviced by Blackburn with Darwen Borough Council and £20.4M serviced by Lancashire County Council which relates to assets transferred on 1st April 1998 as a result of local government reorganisation. More details about of borrowing are included within Notes 42 and 43 to the financial statements. Total borrowing should be viewed in relation to the value of the Council's property, plant and equipment assets which amounted to £432M at 31st March 2011.

3.2 During 2010/11 the £60.379M capital expenditure was financed by borrowing (£23.682M), Government Grants and other contributions (£35.085M), capital receipts (£1.161M), and revenue contributions (£0.451M).

4.0 General Fund Revenue Accounts 2010/11

4.1 The General Fund revenue accounts represent the cost of meeting the annual expenses of carrying out the Council's duties and responsibilities to the community, most of which are of a statutory nature. Revenue expenditure includes full provision for meeting the financing charges involved in the provision of buildings, plant and machinery and all other capital expenditure incurred.

4.2 For 2010/11 the Council approved a revenue budget requirement of £160.542M.

The budget requirement represented approved net expenditure (including parish precepts) of £159.782M plus a contribution of £0.760M to the Council's revenue reserves.

Actual spending for the year was £142.947M (represented by £209.913M net service expenditure, shown in Note 27 less other non-service adjustments of £66.966M). A contribution was made to reserves of £10.444M, comprising £1.734M IFRS changes (£4.882M total less £3.148M adjusted as at 1st April 2010), £3.150M by schools, £2.576M for Regenerate Pennine Lancashire and £2.984M to the Council's general and other earmarked reserves.

4.3 The main reasons for the reduction from the original budget are listed below:

		£000's	£000's
Original budget requirement			159,782
Adjustments to budgets as a result of year end flexibilities:-			
Budgets brought forward from 2009/10	- revenue	+ 1,945	
Less: budgets carried forward to 2011/12	- revenue	- 2,853	
			- 908
Grants carried forward as a result of accounting changes under IFRS			-4,882

Grants carried forward in respect of Regenerate Pennine Lancashire		- 2,576
Withdrawal of Area Based Grant by central government		- 4,017
Delegated schools budgets – reduction in costs	-1,658	
Less amount as a result of accounting changes under IFRS	-1,492	
		-3,150
Savings in respect of interest and debt repayment		- 2,165
Additional health income used to support demographic pressures and reablement		- 553
Urban programme grant clawback no longer repayable due to change in central government rules		- 419
Final dividend received following the winding up of Intack Services Limited		- 399
Contingency for procurement activity not required		- 390
Loan guarantee liability arising		+ 401
Pension strain and redundancy costs		+ 2,453
Other variations to budgets		- 230
Actual expenditure		**142,947**

4.4 Individual variations greater than £250,000 have been identified above. These are considerably greater than is normally the case, partly because of mid-year changes to grant notified to the Council following the election of a new Government in May 2010, and partly as a consequence of a change in accounting practice (as a consequence of following IFRS) regarding the treatment of grants received during the year on which there are no conditions, such that these have to be accounted for as received and not as used. However, as a result of the budget monitoring processes in place throughout the Council, the remaining net changes to budgets of £0.230M has ensured the delivery of services to around 0.15% of its overall budget.

5.0 Capital Expenditure

5.1 The Council spent a total of £60,379,000 (2009/10 £60,027,000) on capital investment in the year compared with an original budget of £78,455,000.

The most significant schemes in 2010/11 are listed below:

	£000's
Adult Social Care	
Adaptation of homes – disabled facilities / minor works	1,945
Children's Services	
School refurbishments – minor works programmes	7,086
Early Years Children's Centres	2,200
Adaptation of people's homes – disabled facilities	386
Building Schools for the Future	12,403
Primary capital programme	1,632
Housing	
Clearance programme	4,542
Group Repair & Facelift schemes	4,662
The Boulevard	876
Kingsway Extra Care scheme	2,052
Regeneration	
Local Transport Plan	
- Structural maintenance of carriageways	1,029

	£000's
- Bridge strengthening and maintenance	1,045
- Minor works packages	995
Local Enterprise Growth Initiative (LEGI) schemes	1,679
Darwen Town Centre Heritage Initiatives	661
Blackburn Market	6,875
Town Centre Improvements	441
Fielden Street junction	822
Fielden Street multi-storey car park	694
Resources	
Corporate ICT	3,030
Darwen academy highway works	563
Carbon Management Plan	314
Corporate Property Investments	691
Corporate Property Upgrades	852

6.0 Building Schools for the Future

6.1 The Building Schools for the Future (BSF) project involves the extensive building, remodelling and operation of 9 secondary schools across 8 sites in Blackburn with Darwen together with ICT managed services. The total programme capital investment is estimated at around £150M and includes 3 schools funded under the Private Finance Initiative (PFI).

Balfour Beatty Education was appointed as preferred bidder in October 2009, and the Council together with Bolton Metropolitan Borough Council, Balfour Beatty Education and Building Schools for the Future Investments formed the Local Education Partnership (LEP). The LEP will design, build and maintain the schools as well as provide ICT managed services.

Pleckgate High School (PFI) is due to be completed in September 2011. Construction is well underway on Darwen Vale High School (sample Design and Build), and the "Phase 2 PFI" schools, Witton Park and New East Blackburn, with an anticipated opening date of September 2012. The future liabilities on the PFI contracts are detailed in Note 37 to the financial statements.

7.0 Pensions Liability

7.1 The Pensions Liability appearing in the Balance Sheet represents the excess of the accrued pension liabilities, assessed on a prescribed basis, compared with the market value of assets at a single point in time (i.e. 31 March 2011). It is an actuarially calculated figure for accounting purposes, and uses different actuarial assumptions from the full valuation of the Fund.

7.2 The liability represents the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £145M has a substantial impact by reducing the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, with the deficit being made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

E HALL
Director of Finance
Blackburn with Darwen Borough Council

1.0 The Council's responsibilities

1.1 The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

2.0 The Director of Finance's responsibilities

2.1 The Director of Finance is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

2.2 In preparing this statement of accounts, the Director of Finance has;

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

2.3 The Director of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

2.4 The statement of accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2011.

E Hall
Director of Finance
Blackburn with Darwen Borough Council
29th June 2011

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The *Surplus or (Deficit) on the Provision of Services* line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The *Net Increase / Decrease before transfers to Earmarked Reserves* line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves (Note 23)	**Total Authority Reserves**
	£000	£000	£000	£000	£000	£000	£000
Balance at 31/03/2009	**(3,447)**	**(22,138)**	**(58)**	**(5,064)**	**(30,707)**	**(165,228)**	**(195,935)**
Movement in reserves during 2009/10							
Surplus or (deficit) on the provision of services	9,705	0	0	0	9,705	0	9,705
Other Comprehensive Income and Expenditure	0	0	0	0	0	62,426	62,426
Total Comprehensive Income and Expenditure	**9,705**	**0**	**0**	**0**	**9,705**	**62,426**	**72,131**
Adjustment between accounting basis & funding basis under regulations (Note 6)	(8,060)	0	(1,299)	(2,012)	(11,371)	11,371	0
Net Increase / Decrease before Transfers to Earmarked Reserves	**1,645**	**0**	**(1,299)**	**(2,012)**	**(1,666)**	**11,371**	**72,131**
Transfers to / from earmarked reserves (Note 7)	(2,434)	2,434	0	0	0	0	0
Increase / Decrease in 2009/10	**(789)**	**2,434**	**(1,299)**	**(2,012)**	**(1,666)**	**73,797**	**72,131**
Balance at 31 March 2010 carried forward	**(4,236)**	**(19,704)**	**(1,357)**	**(7,076)**	**(32,373)**	**(91,431)**	**(123,804)**
Movement in reserves during 2010/11							
Surplus or (deficit) on the provision of services	18,177	0	0	0	18,177	0	18,177
Other Comprehensive Income and Expenditure	0	0	0	0	0	(39,479)	(39,479)
Total Comprehensive Income and Expenditure	**18,177**	**0**	**0**	**0**	**18,177**	**(39,479)**	**(21,302)**
Adjustment between accounting basis & funding basis under regulations (Note 6)	(28,621)	0	394	(768)	(28,995)	28,995	0
Net Increase / Decrease before Transfers to Earmarked Reserves	**(10,444)**	**0**	**394**	**(768)**	**(10,818)**	**(10,484)**	**(21,302)**
Transfers to / from earmarked reserves (Note 7)	7,760	(7,760)	0	0	0	0	0
Increase / Decrease in Year	**(2,684)**	**(7,760)**	**394**	**(768)**	**(10,818)**	**(10,484)**	**(21,302)**
Balance at 31 March 2011 carried forward	**(6,920)**	**(27,464)**	**(963)**	**(7,844)**	**(43,191)**	**(101,915)**	**(145,106)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
18,925	(16,404)	2,521	Central services to the public	19,603	(16,862)	2,741
78,435	(25,784)	52,651	Cultural, environmental, regulatory and planning services	78,170	(22,582)	55,588
212,276	(165,206)	47,070	Education and children's services	262,212	(190,384)	71,828
17,230	(4,248)	12,982	Highways and transport services	20,316	(5,289)	15,027
75,450	(60,515)	14,935	Housing services	78,870	(55,123)	23,747
57,278	(15,131)	42,147	Adult social care	54,344	(14,719)	39,625
6,125	(1)	6,124	Corporate and democratic core	6,022	117	6,139
834	(76)	758	Non distributed costs (Note 8)	(28,335)	(89)	(28,424)
814	(1,094)	(280)	Exceptional items not included in the cost of specific services	0	0	0
467,367	**(288,459)**	**178,908**	**Cost of Services**	**491,202**	**(304,931)**	**186,271**
		(988)	Other Operating Expenditure (Note 9)			27
		15,160	Financing and Investment Income and Expenditure (Note 10)			12,760
		(183,375)	Taxation and Non-Specific Grant Income (Note 11)			(180,881)
		9,705	**(Surplus) or Deficit on Provision of Services**			**18,177**
		(961)	(Surplus) or deficit on revaluation of fixed assets			(8,758)
		63,387	Actuarial (gains) / losses on pension assets / liabilities			(30,721)
		62,426	**Other Comprehensive Income and Expenditure**			**(39,479)**
		72,131	**Total Comprehensive Income and Expenditure**			**(21,302)**

BALANCE SHEET

The Balance sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
408,139	425,774	Property, Plant & Equipment	12	403,015
0	516	Intangible Assets	13	1,436
1,115	1,437	Long Term Investments	14	929
27,075	27,142	Long Term Debtors	15	26,763
436,329	**454,869**	**Long Term Assets**		**432,143**
19,707	5,165	Short Term investments	42	11,185
417	352	Inventories	16	336
26,577	28,383	Short Term Debtors	17	15,715
11,788	14,047	Cash and Cash Equivalents	18	13,052
58,489	**47,947**	**Current Assets**		**40,288**
(7,185)	(9,503)	Bank Overdraft	18	(9,279)
(13,976)	(16,106)	Short Term Borrowing	42	(14,262)
(27,972)	(31,127)	Short Term Creditors	19	(28,321)
(49,133)	**(56,736)**	**Current Liabilities**		**(51,862)**
(649)	(404)	Provisions	20	(808)
(101,447)	(99,348)	Long Term Borrowing	42	(99,351)
(147,654)	(217,524)	Other Long Term Liabilities	21	(165,759)
0	(5,000)	Capital Grants Receipts in Advance	33	(9,545)
(249,750)	**(322,276)**	**Long Term Liabilities**		**(275,463)**
195,935	**123,804**	**Net Assets**		**145,106**
30,707	32,373	Usable Reserves	22	43,191
165,228	91,431	Unusable Reserves	23	101,915
195,935	**123,804**	**Total Reserves**		**145,106**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2009/10 £000		2010/11 £000
(9,705)	Net surplus or (deficit) on the provision of services	(18,177)
42,180	Adjustments to net surplus or deficit on the provision of services for non cash movements	60,786
(50,722)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(36,618)
(18,247)	**Net cash flows from Operating Activities** (Note 24)	**5,991**
16,437	Investing Activities (Note 25)	(4,861)
1,751	Financing Activities (Note 26)	(1,901)
(59)	**Net increase or decrease in cash or cash equivalents**	**(771)**
4,603	Cash and cash equivalents at the beginning of the reporting period	4,544
4,544	**Cash and cash equivalents at the end of the reporting period**	**3,773**

1 Accounting policies

a) *General principles*

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code) and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRSs).

The accounting convention adopted in the Statement of Accounts is principally historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

b) *Accruals of expenditure and income*

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure has been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) *Cash and cash equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on demand. This is taken to include any instant access accounts. Cash equivalents are investments that are readily convertible to known amounts of cash, with insignificant risk of change in value. In general, short term is taken as being one month or less from the date of acquisition. Specifically, cash equivalents will be taken as including:

- any bank accounts requiring more than one day and up to one month's notice for withdrawal, or callable deposits where the Council can demand repayment within the same time periods, without penalty
- investments in constant Net Asset Value (NAV) Money Market Funds,
- any readily tradable one month treasury bills.

Fixed term and callable deposits (where the bank can chose to repay early) will continue to be viewed as Investments, rather than cash equivalents, even if of less than one month's initial duration, because the degree to which they may be readily convertible to cash before the maturity date is not certain.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) *Exceptional items*

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

e) *Prior period adjustments, changes in accounting policies and estimates, and errors*

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

In 2011/12 the transition to IFRS has resulted in significant changes to some accounting policies. Item ***w)*** on pages 30-34 provides further details of the prior period adjustments made in implementing IFRS.

f) Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This Minimum Revenue Provision (MRP) is an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

g) Employee benefits

<u>Benefits payable during employment</u>
Short-term employee benefits are those due to be settled within twelve months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, allowances and non-monetary benefits (e.g. leased cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council (in accordance with proper accounting practices). An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi-leave or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs (in accordance with statutory regulations).

<u>Termination benefits</u>
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date (redundancy) or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or a group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

<u>Post-employment benefits</u>
Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Lancashire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

<u>The Local Government Pension Scheme</u> is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that

will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the market yields at the reporting date on high quality corporate bonds)
- The assets of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value
- The change in the net pensions liability is analysed into seven components:
  - *current service cost* (the increase in liabilities as a result of years of service earned this year) allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - *past service cost* (the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years) debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - *interest cost* (the expected increase in the present value of liabilities during the year as they move one year closer to being paid) debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - *expected return on assets* (the annual investment return on the fund assets attributable to the Council based on an average of the expected long term return) credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - *gains or losses on settlement and curtailments* (the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees) debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - *actuarial gains and losses* (changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions) debited to the Pensions Reserve
  - *contribution paid to the pension fund* (cash paid as an employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense).

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

i) Financial instruments

<u>Financial liabilities</u> are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The Council's borrowing portfolio, however, includes a number of market loans subject to "stepped" interest rates i.e. where the initial rates payable are lower than over the remainder of the life of the loan. The interest charges of such loans are averaged out over the life of each loan, by use of an effective interest rate to calculate the amortised cost of the debt. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustments Account in the Movement in Reserves Statement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. In these circumstances, the Council spreads the cost of the premium over the remaining life of the replacement debt, whilst discounts are written back over ten years, or the remaining life of the replacement debt, whichever is the shorter. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustments Account in the Movement in Reserves Statement.

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has a share in loans which have been made at less than market rates (soft loans – see Note 22 – Financial Instruments Adjustment Account). When soft loans are made, if there is a material loss it is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable on the soft loan, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable in the financial year – in this case nil. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-sale assets – the Council does not currently recognise any available-for-sale assets in the Balance Sheet.

j) Government grants and other contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council can comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. For example, a grant may need to be returned if the Council ceases to use the asset purchased with that grant for a purpose specified by the grant paying body.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

k) Intangible assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. This category of asset is shown separately on the Balance Sheet, and includes software licences purchased quite separately from the purchase of the hardware.

Software costs included within the purchase price of individual computers and laptops, will continue to be recognised as an expense when incurred and charged to the Surplus or Deficit on the Provision of Services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible assets held by the Council meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Regular impairment reviews are carried out and any losses recognised are posted to relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses, and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are, therefore, reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds over £10,000) the Capital Receipts Reserve.

l) Interests in companies and other entities

The Council does have some associate company and joint venture interests, which would ordinarily necessitate the preparation of group accounts. It is considered, however, that the amount of the Council’s share of the operating results, assets and liabilities of these entities are not considered to be material to the understanding of the financial position of the Council, and group financial statements have not therefore been produced.

The companies are:

- CX Limited (CXL) – associate company
- Blackburn Rovers Sports Arena – joint venture
- Blackburn with Darwen and Bolton Local Education Partnership (LEP) – joint venture

Long term investments are included within the Council’s Balance Sheet in respect of both CXL and the LEP.

m) Inventories

The Council’s inventories are valued on a variety of bases depending on the nature of the items involved. These bases include cost, average cost, and “first in first out” (FIFO).

The Code requires inventories to be included in the Balance Sheet at the lower of cost and net realisable value; however, the different treatment of stocks is not considered to be material.

n) Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in anyway to facilitate the delivery of services or production of goods or is held for sale. Industrial and commercial properties held by the Council are not considered to be held solely to earn

rentals and/or for capital appreciation. Rather, they are held for regeneration, planning reasons and estate management and, therefore, have been classified as Property, Plant and Equipment.

o) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Council as lessee</u>

<u>Finance leases</u>
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where the ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

<u>Operating leases</u>
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

<u>The Council as lessor</u>

<u>Finance leases</u>
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where an amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for

the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where an arrangement has been reclassified as a finance lease under the IFRS accounting rules, part of the rental income will relate to the repayment of the liability and shall be reclassified as a capital receipt. This will result in a reduction in income credited to the Comprehensive Income and Expenditure Statement. However, for leases in existence at 31 March 2010, the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 permit the amount now recognised as a capital receipt to be retained as revenue income, by making a transfer back to the General Fund Balance from the Capital Receipts Reserve in the Movement in Reserves Statement.

Operating leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis of rental income.

p) Overheads and support services

The costs of overheads and support service costs are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

The bases of allocation used for the main support service costs are outlined below:

Cost		Basis of allocation
Finance Management	)	
Corporate Finance and Financial Management	)	
Internal Audit	)	Time
Legal Services	)	
bdirect (part)	)	
bdirect (part)		Call volumes
Payroll		No of payslips
Personnel Services		No of employees (employment contracts)
Recruitment Administration		No of employees
Training and Development		No of employees
Occupational Health		No of employees
Health and Safety		No of employees
Administrative Buildings		Floor Area
Facilities Management		Time
Sundry Income (Debtors)		No of invoices
Collection		No of transactions
Payments		No of invoices
IT Support and Development		No of PC’s

q) Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably, subject to a threshold of

£10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
An asset is initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the case of an asset being acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain would be held in a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost.
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly by Capita Symonds, the Council's property consultants, to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Valuations are undertaken by qualified valuers, with current experience and knowledge of the state of the market, in accordance with latest Appraisal and Valuation Standards set by the Royal Institution of Chartered Surveyors.

When an asset is re-valued, any accumulated depreciation and impairment at the date of valuation is eliminated against the gross carrying amount of the asset and the net amount restated to the re-valued amount of the asset. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that have been consolidated into the Capital Adjustment Account.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible difference are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable useful life

(i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings - straight line allocation over the useful life of the property (1-50 years) as estimated by the valuer.
- vehicles, plant, furniture and equipment – straight line allocation over 1-20 years, as advised by a suitably qualified officer.
- infrastructure – straight line allocation over 2-40 years

The standard approach is that newly acquired assets are not depreciated in the year of acquisition, and assets in the course of construction are not depreciated until they are brought into use. An exception to this is in respect of vehicles purchased outright when this represents better value for money than leasing. In this case a full year's depreciation is charged in the initial year.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

<u>Disposals and Non-current Assets Held for Sale</u>
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use (i.e. it is being "actively marketed"), it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Assets Held for Sale; and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to former housing disposals (75% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

r) Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts in its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) will be balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet will be revalued and depreciated in the same way as property, plant and equipment owned by the Council.

2011/12 will be the first year in which transactions in relation to PFI projects are included within the accounting statements and the amounts payable to the PFI operators each year will be analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

s) Provisions, contingent liabilities and contingent assets

Provisions
Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate line of the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant. After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

For 2010/11, the Council purchased 1,500 tonnes of landfill, in addition to its annual allocation of 26,266 tonnes. As the actual waste sent to landfill was only 25,381 tonnes, the surplus allowances will be carried forward to 2011/12. In the absence of an active market for landfill allowances, the value at 31 March 2011 has been written down to nil.

Contingent liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

Contingent assets
A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

t) Reserves

The Council sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover contingencies (unallocated balances). Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it

is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets (Revaluation Reserve and Capital Adjustment Account), financial instruments, retirement and employment benefits and do not represent usable resources for the Council - further explanations are provided in the relevant policies.

u) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. These items are generally grants and expenditure on property not owned by the Council. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

v) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

w) Transition to IFRS – changes to accounting policies

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some of the amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

<u>Short-term accumulating compensated absences</u>

This refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the code, the cost of providing holiday pay and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Creditors	(34,691)	(3,703)
Accumulated Absences Account	0	3,703
31 March 2010 Balance Sheet		
Creditors	(42,027)	(444)
Accumulated Absences Account	0	444
2009/10 Comprehensive Income and Expenditure Statement		
Central services to the public	9,198	10
Cultural, environmental, regulatory and planning services	46,223	13

Education and children's services	43,722	451
Housing services	3,820	(1)
Adult social care	42,128	(30)
Corporate and Democratic Core	0	1

Government Grants and other contributions

Under the Code, grants and contributions are recognised as income when they become receivable, unless they are subject to conditions which have not been satisfied. Previously, capital grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. Under IFRS both revenue and capital grants and contributions are credited to the Comprehensive Income and Expenditure Statement, as follows:

- attributable revenue grants and contributions are credited to the relevant service line
- non ring-fenced revenue grants and all capital grants are credited to Taxation and Non-specific Grant Income.

Monies advanced as grants and contributions for which conditions have not been satisfied continue to be carried on the Balance Sheet as liabilities.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance of the Grants and contributions - deferred account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously offset against expenditure (to reduce depreciation charges) in 2009/10; these have been removed from the Comprehensive Income and Expenditure Account in the comparative figures.
- A number of capital grants were received in 2009/10 but not used. Previously, no income was recognised in respect of these grants, which were shown as either creditors, receipts in advance or grants unapplied within the liabilities section of the Balance Sheet. Following the change in accounting policy, the grant has been recognised in full in the Comprehensive Income and Expenditure Statement, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.
- Similarly, a number of revenue grants were received in 2009/10 but not used, so they were shown as either creditors or receipts in advance within the liabilities section of the Balance Sheet. These grants have been recognised in full in the Comprehensive Income and Expenditure Statement, and transferred to Earmarked General Fund Reserves within the reserves section of the balance sheet.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Grants and contributions - deferred	(91,018)	91,018
Capital Adjustment Account	(172,381)	(91,018)
Creditors	(34,691)	10,422
Capital Grants Unapplied (reserve)	0	(5,064)
Earmarked General Fund Reserves		(5,358)
31 March 2010 Balance Sheet		
Grants and contributions - deferred	(103,269)	12,251
Capital Adjustment Account	(156,520)	(12,251)
Creditors	(42,027)	6,835
Grants Unapplied (liability)	(177)	177
Capital Grants Receipts in Advance	0	(5,000)
Capital Grants Unapplied (reserve)	0	(2,012)

2009/10 Comprehensive Income and Expenditure Statement		
Cultural, environmental, regulatory and planning services	46,223	4,925
Education and children's services	43,722	2,674
Highways and transport services	12,069	711
Housing services	3,820	11,024
Adult social care	42,128	81
Taxation and Non-specific Grant Income	(149,697)	(33,678)

Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Council has only one property lease where the accounting treatment has changed following the introduction of the Code. The property asset which was previously recognised in the Council's Balance Sheet has been reclassified as a finance lease granted by the Council (i.e. Council as lessor). As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The asset has been written out of the Balance Sheet at 31 March 2009 and transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- A long term debtor, matched by a deferred capital receipt, have been recognised in the opening 1 April 2009 Balance Sheet.
- The interest element of rental income in respect of the leased property has been reclassified as Interest and Investment Income and removed from the Cost of Services section of the Comprehensive Income and Expenditure Statement.
- The element of rental income which relates to the repayment of the liability is reclassified as a capital receipt. This has resulted in a reduction in income credited to the Comprehensive Income and Expenditure Statement, and has been used to write down the lease debtor.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Property, Plant and Equipment	362,234	(16,380)
Capital Adjustment Account	(172,381)	16.380
Long-Term Debtors	206	26,289
Deferred Capital Receipts Reserve	(8)	(26,289)
31 March 2010 Balance Sheet		
Long-Term Debtors	12,069	(1)
Deferred Capital Receipts Reserve	(6)	1
2009/10 Comprehensive Income and Expenditure Statement		
Cultural, environmental, regulatory and planning services	46,223	1,244
Highways and transport services	12,069	202
Interest and Investment Income	(459)	(1,446)
Interest and Investment Income	(459)	1

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code. As a result the reduction in income credited to the Comprehensive Income and Expenditure Statement (£1,000 in 2009/10) is removed by the transfer of the principal element (considered to be a capital receipt) to the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Reclassification of Non-Current Assets

Under the Code, former tangible fixed assets have been reclassified under the heading of Property, Plant and Equipment (PPE), with the exception of Investment Properties and Surplus Assets which are more strictly defined. The Council has decided that the assets previously included within these latter two categories do not comply with the new definitions and has, therefore, reclassified them as PPE. In some cases this has also resulted in changes to depreciation and revaluation losses charged to the Comprehensive Income and Expenditure Statement in previous years.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Property, Plant and Equipment	362,234	45,605
Investment Properties	45,721	(29,341)
Surplus Assets	16,564	(16,564)
Capital Adjustment Account	(172,381)	(123)
Revaluation Reserve	(21,828)	123
31 March 2010 Balance Sheet		
Property, Plant and Equipment	370,184	9,685
Investment Properties	42,981	2,740
Surplus Assets	29,588	(13,024)
Capital Adjustment Account	(156,520)	(2,250)
Revaluation Reserve	(23,686)	2,849
2009/10 Comprehensive Income and Expenditure Statement		
Cultural, environmental, regulatory and planning services	46,223	549
Education and children's services	43,722	(1,446)
Adults social care	42,128	(3,646)

Reclassification of Short Term Investments

Under the Code cash is represented not only by cash in hand but also includes "cash equivalents", which are investments that are readily convertible to known amounts of cash.

This has resulted in the following changes being made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Cash and Cash Equivalents	4,467	7,321
Short Term Investments	27,028	(7,321)

31 March 2010 Balance Sheet		
Cash and Cash Equivalents	4,892	9,155
Short Term Investments	14,320	(9,155)

Reclassification of miscellaneous loans and investments

In adopting the IFRS-based Code it has been necessary to review all assets, liabilities and reserves on the Council's Balance Sheet. As a result of this review some items have been reclassified and the following changes have been made to the 2009/10 financial statements:

	2009/10 Statements	**Adjustments made**
	£000	**£000**
Opening 1 April 2009 Balance Sheet		
Long Term Investments (LCDL loan)	1,695	(580)
Long Term Debtors	206	580
Deferred Credits	0	(965)
Earmarked General Fund Reserves (Transport Realisation Account)	(965)	965
31 March 2010 Balance Sheet		
Long Term Investments (LCDL loan)	2,049	(32)
Long Term Debtors	242	32

2 Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets, in accordance with Financial Reporting Standard (FRS) 30. The new standard will require that a new class of assets (heritage assets) is disclosed separately in the face of the Council's balance sheet in the 2011/12 financial statements.

Heritage assets are those held principally for their contribution to knowledge or culture, and could include collections of art or other artefacts held by the Council and displayed in the museum and other public buildings. Such assets are not currently valued for inclusion within the Council's asset register, and do not appear on the Council's balance sheet, so it is not possible to provide an estimate of the likely impact of restating the 2010/11 balance sheet, to include this class of assets in the 2011/12 financial statements. It is, however, unlikely that existing assets included in the 2010/11 balance sheet will be re classified as heritage assets when the 2011/12 financial statements are prepared.

3 Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

a) There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities, and reduce levels of service provision.

b) The Council does have some associate company and joint venture interests, which would ordinarily necessitate the preparation of group accounts. It is not considered, however, that the amount of the Council's share of the operating results, assets and liabilities of these entities is material to the understanding of the financial position of the Council, and group financial statements have not therefore been produced. The companies are:

- CX Limited (CXL) – an associate company in which the Council has a 30% shareholding. The Council's share of the company's deficit for 2010/11 would be £80,666, which is not considered to be material in relation to the council's operating results for the year.
- Blackburn Rovers Sports Arena – The Council has a 50% interest in this joint venture company between the Council, Blackburn Rovers Football Club and Darwen Vale High School to provide sports facilities at

the school. The Council has a one third influence on the Board of Directors, and its share of the profit for the year amounted to £79.

- Blackburn with Darwen and Bolton Local Education Partnership (LEP) – the Council has a 5% shareholding in this joint venture, which was formed in order to deliver the capital investment elements of the Building Schools for the Future programme. The Council has also invested in a number of special purpose companies established solely to deliver the new schools at Pleckgate, Witton Park and New East Blackburn under the Private Finance Initiative (see also Notes 34 and 37). The companies do not own any assets, and there is no “profit” to consolidate with the Council’s operating results.

4 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council’s Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Assumptions / estimations made	Degree of uncertainty
General Accounts Payable / Accounts Receivable Accruals	Activity is accounted for in the year it takes place, not simply when cash payments are made or received. Detailed guidance is provided to budget holders and finance staff to assist in the estimation of accruals i.e. where revenue and expenditure has been recognised, but cash has not been received or paid.	The Council processes “old year” payments via the Accounts Payable system during the first two weeks of April, in order to minimise “manual” creditors. Most accruals are otherwise based on order or contract values, so the underlying data is relatively reliable and the scope to use judgement and change assumptions is also relatively limited. As such, the degree of estimation uncertainty is considered to be very low.
Compensated Absences Accrual	The Council is required to accrue for any annual or flexi leave earned but not taken at 31 March each year. The Council’s Human Resources system does not produce information which would enable an actual figure to be calculated, therefore, a sample of non-teaching employees has been taken across all departments and grades. Teaching staff have been treated separately for this purpose due to leave being accrued on a term by term basis.	As it is not possible to determine the actual amount of accrued leave, the only way to review the reasonableness of the estimate is to compare the average days accrued against the Council’s rules around how much leave can be carried forward at year end for non-teaching staff. The maximum number of leave days allowed to be carried forward is 4 days, and the accrual for 2010/11 is based on an average of 3 days. The uncertainty comes from extent to which the sample is representative of the whole. The sample size has been calculated to provide a 95% assurance level and its spread across departments is pro rata to the total number of full time equivalents (FTEs). As a result, the overall degree of estimation uncertainty is not considered to be significant.
Impairment of debtors	In this context, the concept of “impairment” involves the assessment of the likelihood of a debt being recovered. Where it is considered likely that a debt will not be paid then the carrying amount will be adjusted to the probable recoverable amount of zero. The Council carries out a regular assessment of aged debt information from the sundry debtors system. In general 100% provision is made for debts over two years old, and 50% provision for debts over one year old. In addition, individual	Although the provision for likely bad debts (£6,986,000) is material in relation to sundry debtors (£22,701,000), the year on year assessments based on aged debt analysis have not highlighted the need for any significant in year movements and the assumptions appear reasonable in the light of subsequent events. As such, the degree of estimation

	debts over £10,000 are considered separately. For Council Tax and business rates debts, a review is made of collectability in line with current debt recovery performance data.	uncertainty is not considered to be high.
Property, Plant and Equipment - valuation	The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment (PPE). Valuations are performed by Capita Symonds, property consultants to the Council, using qualified valuers, using recognised measurement techniques and based on professional guidance. The Council commissions a rolling programme of valuations, which meets the Code requirements to revalue assets every five years as a minimum. Assets on which capital work has been completed in year are also revalued, and an annual impairment review is carried out.	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited. As such, the degree of estimation uncertainty is not considered to be high.
Property, Plant and Equipment/ Intangible Assets – depreciation/ amortisation	Depreciation/amortisation is the systematic allocation of the cost / fair value of an asset, less its residual value, over its useful life. For property assets, the valuation, residual value and useful life are all estimates, although valuation has been considered above and residual values are unlikely to be material. Useful lives are estimated by the council's property consultants based on professional guidance and are reviewed on revaluation of the asset. For non-property assets, only the residual value and useful life are estimates. The Council seeks advice from the supplier on useful lives and require asset managers to estimate the remaining useful life of assets as part of the annual asset verification arrangements.	Whilst total depreciation for 2010/11 was material at £12,600,000, there were no material depreciation charges for individual assets with the highest depreciation charge being £608,000. For property assets, since useful lives are estimated by an expert based on professional guidance, the scope to use judgement and change assumptions is limited. Also, given that property assets have relatively long asset lives, the estimates are less sensitive to changes in assumptions. For non-property assets, the estimated remaining useful lives are reviewed as part of the annual asset verification arrangements, which mitigates the risk of the sensitivity to changes in assumptions, given the relatively short asset lives. The risk of misstatement is unlikely to be material.
Inventories	IAS 2 requires that inventories are measured at the lower of cost and net realisable value. The Council's inventories are valued on a variety of bases depending on the nature of the items involved, including: cost, average cost, FIFO and LIFO. The bases used do not always, therefore, comply with the requirements of IAS 2 or the code interpretation.	The values are not material i.e. £336,000 at 31 March 2011(£352,000 at 31 March 2010), therefore the degree of estimation uncertainty is considered to be low. The base data is historical cost information in the most part. The same bases are used for individual inventory balances consistently year on year. The exercise of judgement is only around determining the most appropriate method of valuation at the inception and therefore the level of judgement is not significant.
Financial Instruments	Fair value of trade debtors/creditors is assessed to be the same as book value less provision for impairment of debtors. Fair value of PWLB debt and market debt is estimated based on amount that would have had to repay at balance sheet date including any premium which would be due for early re-payment.	Underlying data is relatively reliable - i.e. for PWLB redemption terms are provided; for other loans and investments interest rates etc are available and recorded as part of normal treasury management processes. The level of judgment used is limited and there is no reason to try to bias the

	Fair value of investments is estimated by discounting the cash flows on investments - i.e. principal and interest due on maturity, at a market rate for an investment of a similar period to the outstanding period at the balance sheet date.	estimates in any way since they are disclosure items only. The overall level of estimation uncertainty considered to be low.
Provisions	Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement, and a reliable estimate can be made of the amount of the obligation. Prior to 2010/11, the main provision made by the Council was in respect of Highways Third Party Claims. Two new provisions have been established during 2010/11, in relation to a loan guarantee made by the Council (£402,000) and potential insurance excess liabilities for five outstanding accident claims (£32,000)	The Highways Third Party Claims balance results from detailed monitoring of outstanding/potential claims and a year end assessment of the element to be classified as an earmarked reserve and that which constitutes a provision. The values are not material i.e. £808,000 at 31 March 2011(£404,000 at 31 March 2010), therefore the degree of estimation uncertainty is considered to be low.
Pensions Liability	Estimation of the liability to pay pensions within the Local Government Pension Scheme depends on a number of complex judgements relating to the discount rate used i.e. the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged by the Lancashire County Pension Fund to provide all the authorities within that fund with expert advice about the assumptions to be applied. The actuaries provide the detail of their estimation process to all the authorities within the fund so that they can consider whether they need to challenge any of the assumptions made. In addition, the base data needs to be provided before the year end to enable time to produce the estimates. The data is usually provided by the Council as at the end of January and the actuary projects the figures forward to achieve an end of year value to use within their estimates. For 2010/11, the actuary has used CPI instead of RPI to determine inflation assumptions.	The pension fund auditor compares the final year end pension assets values against the estimated asset values used in the IAS19 calculations each year. This exercise has not identified a material difference in estimated and actual asset values to date. The estimated liabilities are always an estimate by their nature and therefore can't be readily compared to an actual outcome. Different actuaries use different assumptions and yet they are all considered by the industry to be appropriate. A recent Audit Commission review indicated that the actuarial estimates would be expected to be within 2 to 3 % accurate, i.e. by their nature they cannot be 100% accurate.
Council Tax surplus /deficit set before each financial year	There is a statutory requirement for a billing authority to estimate the surplus/deficit on the Collection Fund for the end of each financial year by January 15 of that year. That estimate of the year end position forms part of the calculation of the Council Tax for the following financial year Whilst there is a prescribed method of apportionment between the billing authority and the major preceptors, there is no guidance on how the estimate should be calculated.	It should also be noted that this estimate is only disclosed in the Collection Fund and related notes, given that the calculation of the debtor with major preceptors and the balance on the Council Tax Adjustment Account is based on the actual surplus/deficit for the year.

5 Events after the Balance Sheet date

Events may occur between the Balance Sheet date and the date the accounts are authorised for issue which might have a bearing upon the financial results of the past year. Such events should be reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date (i.e. the originating event took place prior to the year-end) and the amounts are considered material to the accounts (adjusting events).

Events which arise after the Balance Sheet date and concern conditions which did not exist at that time should be detailed in notes to the core statements if they are of such materiality that their disclosure is required for the fair presentation of the financial statements (non adjusting events).

6 Adjustments between accounting basis and funding basis under regulations

2010/11	Usable Reserves: General Fund Balance £000	Usable Reserves: Capital Receipts Reserve £000	Usable Reserves: Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non current assets	(12,617)	0	0	12,617
Revaluation losses on Property, Plant and Equipment	(56,816)	0	0	56,816
Amortisation of intangible assets	(134)	0	0	134
Capital grants and contributions	30,160	0	0	(30,160)
Revenue expenditure funded from capital under statute	(20,402)	0	0	20,402
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(550)	0	0	550
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	5,913	0	0	(5,913)
Capital expenditure charged against the General Fund	451	0	0	(451)
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,693	0	(5,693)	0
Application of grants and contributions to capital financing transferred to the Capital Adjustment Account	0	0	4,925	(4,925)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	766	(766)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,161	0	(1,161)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(1)	1	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the government housing capital receipts pool	(1)	(2)	0	3
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(326)	0	0	326
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note ??)	5,695	0	0	(5,695)
Employer's pensions contributions and direct payments to pensioners payable in the year	13,533	0	0	(13,533)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(204)	0	0	204
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	219	0	0	(219)
Total adjustments	**(28,621)**	**394**	**(768)**	**28,995**

2009/10 comparative figures	**Usable Reserves**			**Movement in Unusable Reserves**
	General Fund Balance £000	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**£000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non current assets	(10,670)	0	0	10,670
Revaluation losses on Property, Plant and Equipment	(10,035)	0	0	10,035
Amortisation of intangible assets	0	0	0	0
Capital grants and contributions	29,393	0	0	(29,393)
Revenue expenditure funded from capital under statute	(20,749)	0	0	20,749
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,061)	0	0	1,061
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	6,002	0	0	(6,002)
Capital expenditure charged against the General Fund	287	0	0	(287)
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	4,285	0	(4,285)	0
Application of grants and contributions to capital financing transferred to the Capital Adjustment Account	0	0	2,273	(2,273)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,544	(2,544)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,248	0	(1,248)
Contribution from the Capital Receipts Reserve to finance the payments to the government housing capital receipts pool	1	(1)	0	0
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash	(1)	(2)	0	3
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	31	0	0	(31)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note ??)	(19,873)	0	0	19,873
Employer's pensions contributions and direct payments to pensioners payable in the year	12,503	0	0	(12,503)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(273)	0	0	273
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(444)	0	0	444
Total adjustments	**(8,060)**	**(1,299)**	**(2,012)**	**11,371**

7 Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future spending plans and the amounts posted back from earmarked reserves to meet General fund expenditure in 2010/11.

	Balance at 1 April 2009	Transfers out 2009/10	Transfers in 2009/10	**Balance at 31 March 2010**	Transfers out 2010/11	Transfers in 2010/11	**Balance at 31 March 2011**
	£000	£000	£000	**£000**	£000	£000	**£000**
Balances held by schools under a scheme of delegation	**(9,517)**	**1,074**	**0**	**(8,443)**	**0**	**(1,965)**	**(10,408)**
Leisure Review Development Fund	**(70)**	70	0	**0**	0	0	**0**
Administrative costs of realising capital receipts	**0**	0	0	**0**	0	(29)	**(29)**
Revenue Budget Reserve	**(701)**	701	(15)	**(15)**	15	0	**0**
Revenue Slippage Reserve	**(8,564)**	5,444	(2,329)	**(5,449)**	1,875	(6,737)	**(10,311)**
Highways Claims Anticipated	**(39)**	0	0	**(39)**	0	(94)	**(133)**
Dedicated Schools Grant Surplus	**(45)**	42	0	**(3)**	0	(1,186)	**(1,189)**
Building Schools for the Future	**0**	0	(857)	**(857)**	106	(396)	**(1,147)**
Developers’ Contributions	**(1,391)**	230	(365)	**(1,526)**	619	(515)	**(1,422)**
Asylum Seekers	**(511)**	0	(141)	**(652)**	0	(55)	**(707)**
Service Re-modelling	**0**	0	(1,500)	**(1,500)**	2,454	(1,390)	**(436)**
Potential Reduced Fees as HMR programme comes to an end	**(321)**	0	(169)	**(490)**	130	0	**(360)**
Arts Acquisitions Fund	**(9)**	0	0	**(9)**	0	0	**(9)**
Winifred Ferrier Bequest	**(31)**	1	0	**(30)**	1	0	**(29)**
Pay and Reward	**(439)**	439	0	**0**	0	0	**0**
Family Support Review	**(500)**	500	0	**0**	0	0	**0**
Future Maintenance of Wainwright Bridge	**0**	0	(506)	**(506)**	0	0	**(506)**
Employment Agency Relocation	**0**	0	(185)	**(185)**	125	(78)	**(138)**
Darwen Market Traders	**0**	0	0	**0**	0	(2)	**(2)**
Building Control	**0**	0	0	**0**	0	(79)	**(79)**
Turton Tower Charity	**0**	0	0	**0**	0	(6)	**(6)**
Corporate Improvement and Transformation	**0**	0	0	**0**	0	(553)	**(553)**
	(12,621)	**7,427**	**(6,067)**	**(11,261)**	**5,325**	**(11,120)**	**(17,056)**
Total	**(22,138)**	**8,501**	**(6,067)**	**(19,704)**	**5,325**	**(13,085)**	**(27,464)**

8 Material items of income and expense

The Non Distributed Costs line within the Comprehensive Income and Expenditure Statement includes pensions past service and curtailment costs, which are normally the result of increased benefits being paid in the event of pension scheme members retiring early during the year. During 2010/11, a large negative past service cost is reported due to future annual pension increases being linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The expenditure items included within the Non Distributed Costs line are shown in the table below, and further information about post employment (pensions) costs are included in Note 40.

2009/2010		2010/2011
£000		£000
113	Past service costs	(28,499)
649	Curtailments	112
72	Other expenditure	52
834	**Gross expenditure on Non Distributed Costs**	**(28,335)**

9 Other operating expenditure

2009/2010		2010/2011
£000		£000
55	Parish Council precepts	179
62	Levies	63
(1)	Payments to the government housing capital receipts pool	1
(1,104)	Gains/losses on the disposal of non current assets	(216)
(988)	**Total**	**27**

10 Financing and investment income and expenditure

2009/2010		2010/2011
£000		£000
6,687	Interest and other similar charges	6,476
10,377	Pensions interest cost and expected return on pensions assets	8,436
(1,904)	Interest receivable and similar income	(1,753)
0	Other investment income	(399)
15,160	**Total**	**12,760**

11 Taxation and non specific grant income

2009/2010		2010/2011
£000		£000
(48,768)	Council tax income	(50,071)
(63,214)	Non domestic rates	(71,282)
(37,715)	Non-ringfenced government grants	(34,981)
(33,678)	Capital grants and contributions	(24,547)
(183,375)	**Total**	**(180,881)**

12 Property, Plant and Equipment

Movements in 2010/11

	Land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under construction £000	Total Property, Plant & Equipment £000	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2010	**335,277**	**25,080**	**87,776**	**6,826**	**27,815**	**482,774**	**0**
Additions	6,335	258	5,531	620	26,798	39,542	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(4,029)	0	0	0	0	(4,029)	0
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(56,816)	0	0	0	0	(56,816)	0
Derecognition - Disposals	(574)	0	0	0	0	(574)	0
Derecognition - Other	0	0	0	0	0	0	0
Assets reclassified	21,891	0	(5,634)	7	(17,340)	(1,076)	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2011	**302,084**	**25,338**	**87,673**	**7,453**	**37,273**	**459,821**	**0**
Accumulated Depreciation and Impairment							
At 1 April 2010	**(24,687)**	**(21,205)**	**(11,108)**	**0**	**0**	**(57,000)**	**0**
Depreciation charge	(9,167)	(1,178)	(2,272)	0	0	(12,617)	0
Depreciation written out to the Revaluation Reserve	12,787	0	0	0	0	12,787	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition - Disposals	24	0	0	0	0	24	0
Derecognition - Other	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	0	0	0	0	0	0
At 31 March 2011	**(21,043)**	**(22,383)**	**(13,380)**	**0**	**0**	**(56,806)**	**0**
Net Book Value							
At 31 March 2011	**281,041**	**2,955**	**74,293**	**7,453**	**37,273**	**403,015**	**0**
At 31 March 2010	**310,590**	**3,875**	**76,668**	**6,826**	**27,815**	**425,774**	**0**

Comparative movements in 2009/10

	Land & buildings	Vehicles, plant, furniture & equipment	Infrastructure Assets	Community Assets	Assets under construction	Total Property, Plant & Equipment	PFI Assets included in Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2009	**306,810**	**23,042**	**77,515**	**4,866**	**42,979**	**455,212**	**0**
Additions	18,977	865	8,821	1,288	10,320	40,271	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	217	0	0	0	0	217	0
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(9,994)	0	0	(41)	0	(10,035)	0
Derecognition - Disposals	(1,061)	0	0	0	0	(1,061)	0
Derecognition - Other	0	0	0	0	0	0	0
Assets reclassified	20,328	1,173	1,440	713	(25,484)	(1,830)	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2010	**335,277**	**25,080**	**87,776**	**6,826**	**27,815**	**482,774**	**0**

Accumulated Depreciation and Impairment							
At 1 April 2009	**(18,498)**	**(19,625)**	**(8,950)**	**0**	**0**	**(47,073)**	**0**
Depreciation charge	(6,932)	(1,580)	(2,158)	0	0	(10,670)	0
Depreciation written out to the Revaluation Reserve	743	0	0	0	0	743	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0	0	0
Derecognition - Other	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	0	0	0	0	0	0
At 31 March 2010	**(24,687)**	**(21,205)**	**(11,108)**	**0**	**0**	**(57,000)**	**0**

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Land and buildings	1 – 50 years
Vehicles, plant, furniture and equipment	1 – 20 years
Infrastructure	2 – 40 years

Capital Commitments

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years. These commitments are budgeted to cost £11.06M (£8.250M at 31 March 2010) and are included in the 2011/15 capital programme. The major commitments are:

	£'000
Primary Capital projects (Wensley Fold, St Silas's)	7,829
Blackburn Market	1,936
Group repair schemes	618
King William Street public realm project – contractual agreement with NWDA	677

In addition, the Council has commitments to compensation payments estimated at £3,500,000, in relation to the clearance of sites within the area development framework. Most of these will be paid over the next two to three years as claims are received, and have been provided for in the 2011/15 capital programme.

The Building Schools for the Future (BSF) programme includes 3 schools funded under the Private Finance Initiative (PFI), and 2011/12 will be the first year of a 25 year contract for the construction and maintenance of those schools. The council will make an agreed annual payment over the life of the contract, which is increased by inflation each year. Payments remaining to be made under the PFI contract at 31 March 2011 are detailed in Note 37.

Also within the BSF programme, but funded directly by the Council rather that under a PFI, is a design and build contract for Darwen Vale High School. The committed expenditure is estimated at £15,759,000 for the main contract, £7,150,000 for the ICT element and £5,795,000 for Lifecycle (a proportion of which may be charged to revenue).

Revaluations

The Council commissions a rolling programme of valuations, which ensures that all Property, Plant and Equipment required to be measured at fair value, is revalued at least every five years. The Council's portfolio of land and buildings has been valued by Capita Symonds, property consultants to the Council, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Valuations of vehicles, plant, furniture and equipment are based on current prices, where there is an active second hand market or latest list prices adjusted for the condition of the asset.

Infrastructure assets, community assets and assets under construction are measured at historic cost.

	Land & buildings	Vehicles, plant, furniture & equipment	Infrastructure Assets	Community Assets	Assets under construction	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000
Carried at historical cost	**13,630**	**25,338**	**87,673**	**7,453**	**9,458**	**143,552**
Valued at fair value as at:						
31 March 2011	121,070					121,070
31 March 2010	27,201					27,201
31 March 2009	12,853					12,853
31 March 2008	116,568				27,815	144,383
31 March 2007	9,204					9,204
Earlier years	1,558					1,558
Total cost or valuation	**302,084**	**25,338**	**87,673**	**7,453**	**37,273**	**459,821**

13 Intangible Assets

The Council accounts for computer software and licences as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of a hardware item of Property, Plant and Equipment. The intangible assets include purchased licences – there is no internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. Software with a gross carrying amount of £402,000 has been amortised for the first time in 2010/11, on a straight-line basis over a useful life of 3 years. The remaining £1,168,000 intangible assets have not yet been brought into use, therefore, no amortisation charge has been made in 2010/11.

The amortisation of £134,000 charged to the Comprehensive Income and Expenditure Account in 2010/11 was charged to a support service cost centre and then absorbed as an overhead across all service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on intangible asset balances during the year is as follows:

	2010/11			2009/10		
	Internally generated assets	**Other Assets**	**Total**	**Internally generated assets**	**Other Assets**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at the start of the year						
- Gross carrying amounts	0	516	516	0	0	0
- Accumulated amortisation	0	0	0	0	0	0
Net carrying amount at the start of the year	**0**	**516**	**516**	**0**	**0**	**0**
Additions:						
- Purchases	0	1,054	1,054	0	516	516
Amortisation for the period	0	(134)	(134)	0	0	0
Net carrying amount at the end of the year	**0**	**1,436**	**1,436**	**0**	**516**	**516**
Comprising:						
- Gross carrying amounts	0	1,570	1,570	0	516	516
- Accumulated amortisation	0	(134)	(134)	0	0	0
	0	**1,436**	**1,436**	**0**	**516**	**516**

14 Long term investments

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
965	965	Intack Services Limited (formerly Blackburn Borough Transport Limited)	0
150	150	CX Limited	150
0	322	Blackburn with Darwen and Bolton Local Education Partnership	779
1,115	1,437		929

15 Long term debtors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
26,289	26,288	The Mall lease	26,287
580	612	Loan to Lancashire County Developments Limited	252
16	33	Loans in respect of Cathedral Quarter	33
4	4	Loans in respect of private street works	4
10	10	Loan to Lancashire and Blackpool Tourist Board	10
40	36	Loan for house purchase or improvement	33
8	6	Mortgages outstanding on sales of council houses to sitting tenants	4
0	26	Darwen Town Council	13
128	127	Car loans to council employees	127
27,075	27,142		26,763

16 Inventories

	2010/11 £000	2009/10 £000
Balance outstanding at start of year	**352**	**417**
Purchases	1,765	1,964
Recognised as an expense in the year	(1,780)	(2,028)
Written off balances	(1)	(1)
Balance outstanding at year end	**336**	**352**

All inventories included in the Council's Balance Sheet are consumable stores.

17 Short term debtors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
15,792	18,856	Central government bodies	6,861
1,090	2,034	Other local authorities	1,675
3	294	NHS bodies	200
0	0	Public corporations and trading funds	1
9,692	7,199	Other entities and individuals	6,978
26,577	**28,383**		**15,715**

18 Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
148	148	Cash held by the Council	165
4,319	4,744	Bank current accounts	4,122
7,321	9,155	Short term deposits with banks and building societies	8,765
11,788	14,047		13,052
(7,185)	(9,503)	Bank overdraft	(9,279)
4,603	**4,544**	**Total cash and cash equivalents**	**3,773**

19 Short term creditors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
(7,916)	(10,514)	Central government bodies	(7,065)
(3,038)	(2,065)	Other local authorities	(1,865)
(128)	(328)	NHS bodies	(33)
(48)	(119)	Public corporations and trading funds	(147)
(16,842)	(18,101)	Other entities and individuals	(19,211)
(27,972)	**(31,127)**	**Total**	**(28,321)**

20 Provisions

	Injury and damage compensation claims £'000	Other provisions £'000	Total £'000
Balance at 31 March 2009	**(583)**	**(66)**	**(649)**
Additional provisions made in 2009/10	(220)	0	(220)
Amounts used in 2009/10	400	0	400
Unused amounts reversed in 2009/10	0	66	66
Balance at 31 March 2010	**(404)**	**0**	**(404)**
Additional provisions made in 2010/11	(282)	(402)	(684)
Amounts used in 2010/11	280	0	280
Balance at 31 March 2011	**(406)**	**(402)**	**(808)**

<u>Injury and damage compensation claims</u>

A provision has been made to cover the estimated cost of the Council's contribution to Highways Third Party Liability claims received up to 31st March 2011 for which settlement has not been made. The provision of £373,800 is based on past experience of court decisions about liability and the amount of damages payable.

A second provision has been made in 2010/11 for the potential excess insurance liabilities of five outstanding accident claims against the Council's subsidiary company, Intack Services Limited (formerly Blackburn Borough Transport Limited), which was wound up during 2010/11.

Other provisions

A provision in respect of an extra (27th) fortnightly pay period, was reclassified as a creditor from 2009/10.

The council has acted as a guarantor for a loan from the Architectural Heritage Fund to the Heritage Trust for the North West. At 31 March 2011 the loan had not been repaid and a provision was, therefore, made to cover the value of the loan plus interest accrued to that date (£401,500)

21 Other long term liabilities

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
124,521	195,278	Pension scheme liability	145,329
22,168	21,281	Council's share of debt administered by Lancashire County Council under local government reorganisation regulations	20,430
965	965	Transport Realisation Account	0
147,654	217,524		165,759

22 Usable reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement (page 16).

23 Unusable reserves

31 March 2009	31 March 2010		31 March 2011
£000	£000		£000
(21,705)	(20,714)	Revaluation Reserve	(28,612)
(247,142)	(245,782)	Capital Adjustment Account	(198,733)
1,980	1,949	Financial Instruments Adjustment Account	2,275
(26,297)	(26,294)	Deferred Capital Receipts Reserve	(26,291)
124,521	195,278	Pensions Reserve	145,329
(288)	(15)	Collection Fund Adjustment Account	189
3,703	4,147	Accumulating Compensated Absences Adjustment Account	3,928
(165,228)	**(91,431)**	**Total Unusable Reserves**	**(101,915)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10		2010/11	
£000		£000	£000
(21,705)	**Balance at 1 April**		**(20,714)**
(3,270)	Upward revaluation of assets	(10,704)	
2,309	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,946	
(961)	Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**(8,758)**
1,223	Difference between fair value depreciation and historical cost depreciation	769	
729	Accumulated gains on assets sold or scrapped	91	
1,952	Amount written off to the Capital Adjustment Account		**860**
(20,714)	**Balance at 31 March**		**(28,612)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction or enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10		2010/11	
£000		£000	£000
(247,142)	**Balance at 1 April**		**(245,782)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
10,670	- Charges for depreciation and impairment of non current assets	12,617	
10,035	- Revaluation losses on Property, Plant and Equipment	56,816	
0	- Amortisation of intangible assets	134	
20,749	- Revenue expenditure funded from capital under statute	20,402	
1,061	- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal calculation	550	
42,515			90,519

(1,952)	Adjusting amount written out of the Revaluation Reserve		(860)
40,563	**Net written out amount of the cost of non current assets consumed in the year**		**89,659**
	Capital financing applied in the year:		
(1,248)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(1,161)	
(29,393)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(30,160)	
(2,273)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(4,925)	
(6,002)	- Statutory provision for the financing of capital investment charged against the General Fund	(5,913)	
(287)	- Capital expenditure charged against the General Fund	(451)	
(39,203)			**(42,610)**
(245,782)	**Balance at 31 March**		**(198,733)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. Similarly, further statutory provisions allow the "effective" interest rate charges in respect of soft loans and stepped interest loans to be reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement.

2009/10		**2010/11**	
£000		**£000**	**£000**
1,980	**Balance at 1 April**		**1,949**
(29)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(29)	
	Effective interest rate adjustments in respect of:		
(32)	- soft loans	360	
30	- stepped rate loans	(5)	
(31)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance cost chargeable in the year in accordance with statutory requirements		326
1,949	**Balance at 31 March**		**2,275**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are back by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

31 March 2010		31 March 2011
£000		**£000**
(26,297)	**Balance at 1 April**	**(26,294)**
3	Transfer to the Capital receipts reserve upon receipt of cash	3
(26,294)	**Balance at 31 March**	**(26,291)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2010		31 March 2011
£000		**£000**
124,521	**Balance at 1 April**	**195,278**
63,387	Actuarial gains or losses on pensions assets and liabilities	(30,721)
19,873	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(5,695)
(12,503)	Employer's pension contributions	(13,533)
195,278	**Balance at 31 March**	**145,329**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General fund from the Collection Fund.

31 March 2010 £000		31 March 2011 £000
(288)	**Balance at 1 April**	**(15)**
273	Amount by which the council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	204
(15)	**Balance at 31 March**	**189**

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/10		2010/11	
£000		**£000**	**£000**
3,703	**Balance at 1 April**		**4,147**
(3,703)	Settlement or cancellation of accrual made at the end of the preceding year	(4,147)	
4,147	Amounts accrued at the end of the current year	3,928	
444	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(219)
4,147	**Balance at 31 March**		**3,928**

24 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

31 March 2010 £000		31 March 2011 £000
1,914	Interest received	1,753
(17,034)	Interest paid	(14,912)
0	Dividends received	399

25 Cash Flow Statement – Investing Activities

31 March 2010 £000		31 March 2011 £000
(38,928)	Purchase of property, plant and equipment, investment property, and intangible assets	(39,587)
(321)	Purchase of short-term and long-term investments	(6,457)
(42)	Other payments for investing activities	0
2,547	Proceeds from the sale of property, plant and equipment, investment property, and intangible assets	768
14,500	Proceeds from short-term and long-term investments	0
38,681	Other receipts from investing activities	40,415
16,437	**Net cash flows from investing activities**	**(4,861)**

26 Cash Flow Statement – Financing Activities

31 March 2010 £000		31 March 2011 £000
0	Cash receipts of short- and long-term borrowing	0
2,638	Other receipts from financing activities	790
(887)	Repayment of short- and long-term borrowing	(2,691)
1,751	**Net cash flows from financing activities**	**(1,901)**

27 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Council's Executive Board on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from accounting policies used in the financial statements. In particular:

- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year
- no accrual is made for the cost of holiday entitlements (or flexi-leave or time off in lieu) earned by employees but not taken before year end which employees can carry forward to the next financial year
- no effective interest rate adjustments are made to account for the impact of services making loans for less than market rate (soft loans)
- lease income in respect of the Mall is credited directly to the appropriate portfolios, rather than the principal element being used to write down the lease debtor and the finance element being credited to Financing and Investment Income and Expenditure

In addition, expenditure on central and departmental support services is fully recharged to services, therefore, the expenditure and income in relation to support service cost centres is excluded from the Comprehensive Income and Expenditure Statement to avoid double counting.

Although, total net expenditure budgets are reported throughout the year, services focus on performance against cash limited budgets. Items classified as outside cash limits include support services expenditure and income and charges made in relation to capital expenditure e.g. depreciation, amortisations and revaluation and impairment losses in excess of the balance on the Revaluation Reserve.

The income and expenditure of the Council's principal Portfolios recorded in the budget reports for the year is as follows:

Portfolio Income and Expenditure 2010/11

	Adult Social Care	Children's Services	Environmental Improvement & Sustainability	Leisure & Culture	Regeneration	Other Direct Services	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(10,193)	(28,304)	(7,675)	(9,259)	(17,308)	(39,123)	(111,862)
Government grants	(7,144)	(168,433)	(123)	(3,042)	(4,696)	(74,493)	(257,931)
Total income	**(17,337)**	**(196,737)**	**(7,798)**	**(12,301)**	**(22,004)**	**(113,616)**	**(369,793)**
Employee expenses	13,723	131,894	7,469	10,041	10,315	25,190	198,632
Other service expenses	42,362	69,888	10,392	6,125	22,257	89,054	240,078
Support service recharges	5,443	25,457	3,293	6,695	6,229	15,217	62,334
Depreciation, amortisation and impairment	1,565	39,588	396	7,034	12,957	17,122	78,662
Total expenditure	**63,093**	**266,827**	**21,550**	**29,895**	**51,758**	**146,583**	**579,706**
Net expenditure	**45,756**	**70,090**	**13,752**	**17,594**	**29,754**	**32,967**	**209,913**
Inside cash limits	41,212	31,321	12,626	7,991	16,056	28,198	137,404
Outside cash limits	4,544	41,918	1,126	9,603	13,698	4,770	75,659
Schools block	0	(3,150)	0	0	0	0	(3,150)
Net expenditure	**45,756**	**70,089**	**13,752**	**17,594**	**29,754**	**32,968**	**209,913**

Portfolio Income and Expenditure - 2009/10 comparative figures

	Adult Social Care	Children's Services	Environmental Improvement & Sustainability	Leisure & Culture	Regeneration	Other Direct Services	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(11,695)	(26,441)	(9,899)	(7,041)	(16,150)	(39,901)	(111,127)
Government grants	(12,941)	(146,542)	(45)	(3,366)	(4,357)	(73,904)	(241,155)
Total income	**(24,636)**	**(172,983)**	**(9,944)**	**(10,407)**	**(20,507)**	**(113,805)**	**(352,282)**
Employee expenses	15,568	128,955	8,275	10,688	8,496	22,649	194,631
Other service expenses	41,797	58,818	11,593	6,907	24,434	89,295	232,844
Support service recharges	7,818	24,856	3,326	5,496	7,044	16,241	64,781
Depreciation, amortisation and impairment	4,404	8,294	475	1,855	9,331	17,094	41,453
Total expenditure	**69,587**	**220,923**	**23,669**	**24,946**	**49,305**	**145,279**	**533,709**
Net expenditure	**44,951**	**47,940**	**13,725**	**14,539**	**28,798**	**31,474**	**181,427**
Inside cash limits	38,288	36,630	12,900	10,102	21,105	40,392	159,417
Outside cash limits	6,663	10,194	825	4,437	7,693	(8,918)	20,894
Schools block	0	1,116	0	0	0	0	1,116
Net expenditure	**44,951**	**47,940**	**13,725**	**14,539**	**28,798**	**31,474**	**181,427**

Reconciliation of Portfolio income and expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement

	2010/11	2009/10
	£000	£000
Net expenditure in the Portfolio analysis	**209,913**	**181,427**
Net expenditure of services and support services not included in the Analysis	0	(280)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(10,046)	10,326
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(13,596)	(12,565)
Cost of Services in the Comprehensive Income and Expenditure Statement	**186,271**	**178,908**

Reconciliation to Subjective Analysis

2010/11	Portfolio Analysis	Services not in Analysis	Amounts in CI&ES not reported to management	In P'folio Analysis not in CI&ES	Allocation of recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(111,862)	0	1,806	0	59,908	**(50,148)**	0	**(50,148)**
Government grants and contributions	(257,931)	0	3,148	0	0	**(254,783)**	(130,810)	**(385,593)**
Interest and investment income	0	0	0	0	0	**0**	(2,152)	**(2,152)**
Income from Council Tax	0	0	0	0	0	**0**	(50,071)	**(50,071)**
Total income	**(369,793)**	**0**	**4,954**	0	**59,908**	**(304,931)**	**(183,033)**	**(487,964)**
Employee expenses	198,632	0	(219)	0	(28,161)	**170,252**	0	**170,252**
Other service expenses	240,078	0	(650)	(63)	(16,734)	**222,631**	0	**222,631**
Support service recharges	62,334	0	0	0	(12,499)	**49,835**	0	**49,835**
Depreciation, amortisation and impairment etc	78,662	0	0	0	(2,514)	**76,148**	0	**76,148**
Interest payments	0	0	0	0	0	**0**	6,476	**6,476**
MRP and RCCO	0	0	0	0	0	**0**	0	**0**
Precepts and levies	0	0	0	0	0	**0**	242	**242**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	1	**1**
Gain or loss on disposal of non current assets	0	0	0	0	0	**0**	(216)	**(216)**
Pensions adjustments (IAS 19)	0	0	(14,131)	(13,533)	0	**(27,664)**	8,436	**(19,228)**
Total expenditure	**579,706**	**0**	**(15,000)**	**(13,596)**	**(59,908)**	**491,202**	**14,939**	**506,141**
Surplus or deficit on the provision of services	**209,913**	**0**	**(10,046)**	**(13,596)**	**0**	**186,271**	**(168,094)**	**18,177**

2009/10 comparative figures	Portfolio Analysis	Services not in analysis	Amounts in CI&ES not reported to manage-ment	In P'folio Analysis not in CI&ES	Allocation of recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(111,127)	(1,093)	1,036	0	63,848	**(47,336)**	0	**(47,336)**
Government grants and contributions	(241,155)	0	0	0	0	**(241,155)**	(134,607)	**(375,762)**
Interest and investment income	0	0	0	0	0	**0**	(1,904)	**(1,904)**
Income from Council Tax	0	0	0	0	0	**0**	(48,768)	**(48,768)**
Total income	**(352,282)**	**(1,093)**	**1,036**	**0**	**63,848**	**(288,491)**	**(185,279)**	**(473,770)**
Employee expenses	194,631	595	444	0	(25,581)	**170,089**	0	**170,089**
Other service expenses	232,844	218	(650)	(62)	(21,451)	**210,899**	0	**210,899**
Support service recharges	64,781	0	0	0	(14,927)	**49,854**	0	**49,854**
Depreciation, amortisation and impairment	41,453	0	0	0	(1,889)	**39,564**	0	**39,564**
Interest payments	0	0	0	0	0	**0**	6,687	**6,687**
Precepts and levies	0	0	0	0	0	**0**	117	**117**
Payments to Housing Capital Receipts Pool	0	0	0	0	0	**0**	(1)	**(1)**
Gain or loss on disposal of non current assets	0	0	0	0	0	**0**	(1,104)	**(1,104)**
Pensions adjustments (IAS 19)	0	0	9,496	(12,503)	0	**(3,007)**	10,377	**7,370**
Total expenditure	**533,709**	**813**	**9,290**	**(12,565)**	**(63,848)**	**467,399**	**16,076**	**483,475**
Surplus or deficit on the provision of services	**181,427**	**(280)**	**10,326**	**(12,565)**	**0**	**178,908**	**(169,203)**	**9,705**

28 Trading operations

Trading operations included within the Cost of Services are the markets operations in both Blackburn and Darwen. The expenditure and income in relation to these trading operations is included within Cultural, environmental, regulatory and planning services. The total turnover for both markets was £1,420,000 (£1,930,000 in 2009/10), resulting in a combined deficit for the year of £4,455,000 (£3,043,000 in 2009/10). These significant deficits have resulted from the recognition in the surplus/deficit on the provision of services of revaluation losses in respect of the Blackburn Market complex. This market has been re-sited within the extended Mall Shopping Centre from June 2011, and has now closed.

29 Members' allowances

Total allowances paid to Members during 2010/11 were £611,358 (£605,423 in 2009/10).

30 Officers' remuneration

The number of employees whose remuneration, excluding pension contributions, exceeded £50,000 during the year is set out below in bands of £5,000. The total of 191 includes 109 teachers (175 including 93 teachers in 2009/10).

Remuneration range	**Number of employees**		
	2010/11 adjusted	**2010/11**	**2009/10**
£50,000 to £54,999	*70*	71	75
£55,000 to £59,999	*53*	52	44
£60,000 to £64,999	*20*	21	14
£65,000 to £69,999	*9*	9	6
£70,000 to £74,999	*6*	5	4
£75,000 to £79,999	*6*	3	6
£80,000 to £84,999	*6*	6	10
£85,000 to £89,999	*6*	8	3
£90,000 to £94,999	*4*	4	1
£95,000 to £99,999	*0*	1	2
£100,000 to £104,999	*0*	0	2
£105,000 to £109,999	*2*	3	0
£110,000 to £114,999	*2*	2	4
£115,000 to £119,999	*1*	1	0
£120,000 to £124,999	*1*	1	1
£125,000 to £129,999	*1*	1	1
£130,000 to £134,999	*0*	0	0
£135,000 to £139,999	*0*	0	0
£140,000 to £144,999	*0*	0	1
£145,000 to £149,999	*0*	2	0
£150,000 to £154,999	*0*	0	0
£155,000 to £159,999	*1*	1	1
Total	***188***	**191**	**175**

The figures for 2010/11 include a number of staff who received compensation payments for loss of office (such as redundancy). In order to achieve a more comparable figure from year to year, an additional column has been included in the table above i.e. 2010/11 adjusted.

The tables below provide further information in respect of senior employees, for 2010/11 and 2009/10, and include the following:

(a) senior employees whose salary is £50,000 or more per year but less than £150,000, are listed individually by way of job title.

(b) those whose salary is £150,000 or more per year are also identified by name.

2010/11

Postholder		Salary, Fees and Allowances	Expense Allow-ances	Benefits In Kind	Compen sation for Loss of Office	Total Remuneration excl. Pension Contribution	Pension Contrib. £'000	Total Remuneration incl. Pension Contribution
		£000	£000	£000	£000	£000	£000	£000
Director of Business Transformation & IT		63	0	0	0	63	9	72
Assistant Director Adult Social Care / Director Transformation and Partnerships		74	0	0	0	74	11	85
Strategic Programme Director - Building Schools for the Future		79	0	0	0	79	11	90
Executive Director of HMR	*	40	0	3	45	88	6	94
Director Of Policy & Communications		79	0	4	0	83	12	95
Human Resources Director		80	0	4	0	84	12	96
Director of Regeneration & Environment – Implementation		81	0	4	0	85	12	97
Director of Legal Services		59	0	0	30	89	8	97
Director of Regeneration & Environment - Development		82	0	4	0	86	12	98
Director of Neighbourhoods, Housing & Customer Services		82	0	4	0	86	12	98
Director Adult Social Care – Safeguarding & Integrated Care		86	0	0	0	86	12	98
Director Childrens Services – Safeguarding & Protection		86	0	0	0	86	13	99
Director of Universal, Targeted & Learning Services		85	0	4	0	89	12	101
Director Of Finance		92	0	0	0	92	13	105
Director Of Culture, Leisure & Sport		92	0	0	0	92	13	105
Strategic Director – Neighbourhoods, Housing & Customer Services		79	0	0	20	99	12	111
Assistant Director - Culture, Leisure & Sport		67	0	3	37	107	10	117
Executive Director – Economic Development/ Director Regenerate Pennine Lancs		104	0	4	0	108	16	124
Strategic Director – Resources		113	0	0	0	113	17	130
Strategic Director – Children's Services		118	0	0	0	118	18	136
Managing Director Local Government Services – BwD Council/Care Trust Plus		123	0	0	0	123	19	142
Deputy Chief Executive – BwD Council/Care Trust Plus		126	0	0	0	126	19	145
Strategic Director of Regeneration & Environment		80	0	3	65	148	12	160
Strategic Director of Social Care & Health		80	0	3	65	148	12	160
Chief Executive – BwD Council/Care Trust Plus Graham Burgess		158	1	0	0	159	24	183

From 1st August 2010, the post of Chief Executive assumed responsibility for both Blackburn with Darwen Borough Council and Blackburn with Darwen Teaching Care Trust Plus, and 30% of the salary costs have been charged to the Care Trust Plus.

* The Executive Director of HMR was employed by Elevate East Lancashire, a housing market renewal pathfinder working in partnership across the whole of Pennine Lancashire. The Elevate programme was ended during the year and the post was terminated.

2009/10

Postholder		Salary	Expense Allowances	Benefits in kind	Total Remuneration excl. Pension Contribution	Pension Contrib. £'000	Total Remuneration incl. Pension Contribution
		£000	£000	£000	£000	£000	£000
Integrated Transport Manager		56	0	0	56	8	64
Executive Director of HMR	*	63	1	0	64	2	66
Strategic Director – Children's Services	#	59	0	0	59	9	68
Assistant Director Adult Social Care / Director Transformation and Partnerships		72	0	0	72	7	79
Director of Business Transformation & IT		70	0	0	70	10	80
Strategic Programme Director – B.S.F. Bolton & BwD		76	0	0	76	5	81
Director Of Strategic Planning & Procurement - Adult Social Care		74	0	0	74	7	81
Assistant Director - Culture, Leisure & Sport		72	0	4	76	10	86
Director Of Finance		72	0	0	72	11	83
Director Adult Social Care – Safeguarding & Integrated Care		83	0	0	83	8	91
Director Of Universal, Targeted & Learning Services		79	0	4	83	8	91
Director Of Policy & Communications		79	0	4	83	12	95
Human Resources Director		79	0	4	83	12	95
Director of Regeneration & Environment - Development		81	0	4	85	12	97
Director Of Neighbourhoods, Housing & Customer Services		81	0	4	85	12	97
Director off Regeneration & Environment – Implementation		81	0	4	85	12	97
Director Of Legal Services		85	0	0	85	12	97
Director Of Culture, Leisure & Sport		89	0	4	93	13	106
Strategic Director – Children's Services	#	98	0	0	98	9	107
Executive Director – Economic Development		96	0	4	100	14	114
Strategic Director – Neighbourhoods, Housing & Customer Services		100	0	4	104	15	119
Strategic Director of Regeneration & Environment		106	0	4	110	16	126
Strategic Director of Social Care & Health		106	0	4	110	16	126
Strategic Director – Resources		112	0	0	112	17	129
Deputy Chief Executive – Regeneration & Technical		121	0	0	121	19	140
Deputy Chief Executive – Community & Personal		126	0	0	126	19	145
Chief Executive – Graham Burgess		158	0	0	158	25	183

* The Executive Director of HMR is employed by Elevate East Lancashire, a housing market renewal pathfinder working in partnership across the whole of Pennine Lancashire.

The post of Strategic Director Children's Services was vacated on 20th September 2009 with the new Strategic Director taking up the post on 14th September 2009.

31 External Audit costs

In 2009/10 and 2008/09 the Council incurred the following fees relating to external audit and inspection:

	2010/11	2009/10
	£000	£000
Fees incurred with regard to external audit services for the 2010/11 and 2009/10 audit years.	251	240
Fees incurred in respect of statutory inspection for the 2009/10 audit year (carried out by the Audit Commission).	0	17
Fees incurred for the certification of grant claims and returns (i.e. 2010/11 audit of 2009/10 grant claims and returns).	60	69
	311	**326**

32 Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are included in the following table:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2010/11			109,238
Brought forward from 2009/10			3
Carry forward to 2011/12 agreed in advance			0
Agreed budget distribution in 2009/10	15,003	94,238	109,241
Actual central expenditure	13,815		
Actual ISB deployed to schools		94,238	
Local authority contribution for 2009/10	0	0	0
Carry forward to 2010/11	**1,188**	**0**	**0**

33 Grant income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11:

	2010/11	2009/10
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Non-ringfenced government grants		
Revenue Support Grant	10,351	14,591
Area Based Grant	24,630	23,058
Local Authorities Business Growth Incentive Grant	0	66
	34,981	**37,715**

Capital grants and contributions		
Building Schools for the Future	11,231	0
Housing Market Renewal	4,375	13,006
Education capital grants	3,732	5,384
Local Enterprise Growth Initiative	1,539	1,972
Housing Capital	1,365	2,969
Other government grants	2,169	8,550
Other contributions	136	1,797
	24,547	**33,678**
Total	**59,528**	**71,393**
Credited to Cost of Services		
Dedicated Schools Grant	109,238	105,345
Standards Fund (including Early Years and Sure Start)	32,634	25,090
Young People's Learning Agency/Learning Skills Council	14,529	4,501
School Standards	5,345	5,336
Supporting People	0	5,955
Rent Allowances Subsidy	51,860	48,596
Council Tax Benefit Subsidy	14,784	13,987
Benefits Administration Grant	1,526	1,810
Housing Market Renewal	2,578	2,879
Other government grants	4,154	7,121
Contributions from other local authorities	1,988	2,000
Contributions from other public sector bodies	8,596	8,637
Other contributions	7,551	9,898
Total	**254,783**	**241,155**

The Council has identified one grant which has yet to be recognised as income as it has conditions attached to it that will require the monies to be returned to the giver. The balances at year end are as follows:

	2010/11	**2009/10**
	£000	**£000**
Capital Grants Receipts in Advance		
Building Schools for the Future	9,545	5,000
Total	**9,545**	**5,000**

34 Related parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

<u>Central Government</u>
Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g.

council tax bills, housing benefits). Grant income from government departments and grant receipts outstanding at 31 March 2011 are shown in Note 33.

Members

Members of the Council have direct control over the Council's financial and operating policies. Members are also appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities.

The total of Members' allowances paid in 2010/11 is shown in Note 29.

During 2010/11, works and services to the value of £98,540 were commissioned from companies in which five Members had an interest. The works were entered into in full compliance with the Council's standing orders, financial procedure rules and procurement procedure rules. A further 3 Members were either employed by or were on the governing body of Blackburn College, to whom the Council paid £5,019,000. Most of this was in the form of grant funding received from central government, or in relation to academic fees for which the Council was liable.

It should be noted that details of these interests have been recorded in the Register of Members' Interests, which is open to public inspection.

Interests in companies and other entities

The Council has financial interests and related party transactions with a number of companies in which it has invested, and which are shown in Note 14.

Intack Services Limited was a company set up to look after the residual interests of the former Blackburn Borough Transport Limited. This company was formally wound up on 16th March 2011 with land and buildings (valued at £2.3M) transferring to the Council together with a final cash payment of £399,000.

The Council has a 30% shareholding in CX Limited, a company jointly owned with Blackpool Borough Council and Lancashire County Council to provide high quality information, advice and guidance to help individuals move forward in work and to support employers in developing their staff. The Council provided basic financial support to the company amounting to £1,464,000 in 2010/11 and made other payments totalling £345,000 for other services and projects.

The Council has a 5% shareholding in Blackburn with Darwen and Bolton Local Education Partnership, which was formed in order to deliver the capital investment elements of the Building Schools for the Future programme. The Council has also invested in Blackburn with Darwen and Bolton Phase 1 Holdings Ltd, Blackburn with Darwen and Bolton Phase 1 Ltd, Blackburn with Darwen and Bolton Phase 2 Holdings Ltd, Blackburn with Darwen and Bolton Phase 2 Ltd, which are special purpose companies established solely to deliver the new schools at Pleckgate, Witton Park and New East Blackburn under the Private Finance Initiative (see also note 37).

The Council has 50% interest in Blackburn Rovers Sports Arena Limited, which is a joint venture company between the Council, Blackburn Rovers Football Club and Darwen Vale High School to provide sports facilities at the school. The Council has a one third influence on the Board of Directors. The Council made payments to BRSA during the year of £17,955, and received income from the company of £51,213 for services provided. The Council's share of the profit for the year amounted to £79.

The Council has 14% voting rights in Lancashire and Blackpool Tourist Board Limited. In 2008 the Council provided an interest-free loan to the company for £10,000 which is due to be repaid on 16th May 2018.

The Council has one third voting rights on the Board of Twin Valley Homes (TVH). Under the terms of the large scale voluntary transfer of council dwellings that resulted in the creation of TVH in 2001, the Council has rights to make nominations into 75% of dwellings which are vacant and available for letting. The Council made payments to TVH of £357,000 during the year, largely in respect of renting properties under the asylum seekers scheme, and also paid £789,000 of "supporting people" grant to fund schemes providing temporary accommodation for single homeless people / families, and sheltered accommodation. In addition the Council made payments of housing benefit to TVH in its role as a social landlord.

The Council is one of 7 local authorities with an interest in Regenerate Pennine Lancashire (formerly Elevate East Lancashire) which was formed to deliver major developments on behalf of the local authorities including continuing the Housing Market Renewal (HMR) work initiated by Elevate. The company is limited by guarantee, there is no financial investment in the company, and there are no financial transactions with the company. However, Blackburn with Darwen Borough Council acts as a host to the company's administration and delivery team incurring running costs of £837,000.

Officers

Officers are appointed by the Council to boards or committees of various organisations to act on behalf of the Council in their official capacities. All officers are also required to declare any relevant interests in a departmental register of interest, gifts and hospitality. There were no significant transactions with organisations in which Council officers had declared interests.

Other Public Bodies (subject to common control by central government)
The main transactions with other public bodies are in relation to precepts paid to Lancashire Police Authority and the Lancashire Combined Fire Authority, details of which are shown in the Collection Fund accounts on pages 76-77.

Under Section 75 of the National Health Service Act 2006 an agreement has been made that Blackburn with Darwen Teaching Care Trust Plus takes a lead commissioning approach to providing the local authority commissioning services. Delegated responsibility of the Council's statutory duty has been given to the Care Trust Plus through the Section 75 agreement. Care Trust Plus has the role of strategic commissioner in respect of the Council's budget for Adult Social Care expenditure on services, both internal and external, together with the commissioning staff costs and parts of the Children's Services commissioning service. This is shown in the Adult Social Care budget as "Care Trust Plus Services", and in Children's Services under "Joint and Health Authorities' payments". Included in these amounts are the salary budgets for staff transferred under TUPE arrangements. The budgets for transport, training, administration and directorate salaries/costs remain within the Council.

The macro commissioning of Adults Social Care conducted by Care Trust Plus is supported by micro commissioning performed by the Social Workers in community and mental health areas. It is the statutory duty of the Council to assess the needs of the citizens requiring social services and to provide those services either from their own facilities or from those of external providers. The commissioning teams therefore direct the flow of services to service users under the strategic guidance of the Care Trust Plus.

The board of Blackburn with Darwen Teaching Care Trust Plus comprises both Council and NHS representatives. There are close links between the Care Trust Plus and the Council's Families, Health and Wellbeing department and monitoring information is shared at regular points throughout the financial year as part of the Annual Service Agreement. This enables the commissioning strategy to be advised by the Council's knowledge of the area's needs and facilities.

The Care Trust Plus also received funding from the Department of Health that it transferred to the Council amounting to £4,705,000. The Council recovers the costs of the strategic commissioning and TUPE'd staff against the Department of Health income. The gross payments to Care Trust Plus were £2,108,000, the net amount being paid to the Council amounting to £2,597,000.

The Council hosts a joint building control service with Burnley Borough Council. Under a service level agreement both authorities contribute towards the net running cost of the service, with Burnley contributing 35.5% (£90,500 in 2010/11) and Blackburn with Darwen contributing 64.5% (£164,400 in 2010/11).

Entities Controlled or Significantly Influenced by the Council
The Council has a 15 year contract with Capita Business Services Limited and Capita Symonds Limited, due to finish at the end of June 2016. Payments made to the companies during 2010/11 amounted to a total of £14,784,000. Whilst the Council has no direct control over the companies, and the level of finance provided is not significant in terms of the size of the Capita Group, it is likely that the operation of the local Blackburn Business Centre is dependent to some extent on the continuation or otherwise of this contract.

The Council made contributions totalling £238,000 to two organisations (Blackburn with Darwen Carers SVC, and Care Network) during the year where the amounts concerned provided a significant proportion of those organisations' income. In these cases, there is a presumption that there is substantial reliance upon such contributions for the future continuation or otherwise of the organisations concerned.

35 Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

31 March 2010		31 March 2011
£000		**£000**
139,442	**Opening Capital Financing Requirement**	**160,264**
	Capital investment	
516	Intangible assets	1,054
40,271	Property, plant and equipment	39,542
18,918	Revenue Expenditure Funded from Capital under Statute	19,326
322	Investments	457
	Sources of finance	
(1,248)	Capital receipts	(1,161)
(287)	Revenue contributions	(451)
(31,668)	Government grants and other contributions	(35,085)
(6,002)	Minimum Revenue Payment	(5,913)
160,264	**Closing Capital Financing Requirement**	**178,033**
	Explanation of movements in year	
1,944	Increase in underlying need to borrow (supported by government financial assistance)	754
18,878	Increase in underlying need to borrow (unsupported by government financial assistance)	17,015
20,822		**17,769**

36 Leases

Council as Lessee

Finance Leases
The Council has not entered into any finance leases as a lessee.

Operating Leases
The Council has entered into a number of operating leases in respect of land and buildings, and vehicles, plant and equipment.

The future minimum lease payments due to non-cancellable leases in future years are:

31 March 2010		31 March 2011
£000		**£000**
1,279	Not later than one year	1,535
1,887	Later than one year and not later than five years	3,269
2,144	Later than five years	18,726
5,310		**23,530**

The large increase is due to the Council agreeing a 35 year lease for the Market Hall area within the redeveloped Mall Shopping Centre.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2010		31 March 2011
£000		**£000**
1,244	Minimum lease payments	1,837
68	Contingent rents	95
1,312		**1,932**

Council as Lessor

Finance Leases
The Council leases out land in respect of The Mall shopping centre under a finance lease with a remaining term of 132 years.

The Council has a gross investment in the lease, made up of minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee, and finance income earned by the Council whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2010		31 March 2011
£000		**£000**
26,288	Finance lease debtor (net present value of minimum lease payments)	26,287
166,163	Un-earned finance income	164,717
192,451	**Gross investment in the lease**	**191,004**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

31 March 2010			31 March 2011	
Gross investment	**Minimum lease payments**		**Gross investment**	**Minimum lease payments**
£000	**£000**		**£000**	**£000**
(1,447)	1	Not later than one year	(1,447)	1
(5,788)	6	Later than one year and not later than five years	(5,788)	6
(185,216)	26,281	Later than five years	(183,769)	26,280
(192,451)	**26,288**		**(191,004)**	**26,287**

Operating Leases
The Council leases out commercial properties under operating leases, including shops, industrial units, market stalls and agricultural tenancies. This activity supports the provision of local services, and economic development in the Borough, including the provision of affordable accommodation for businesses.

The IFRS Code requires the disclosure of an analysis of the overall value of future minimum lease payments due to non-cancellable leases in future years, and the contingent rent elements received in year. However, it has not been possible to undertake the extensive analysis during this first year under IFRS, although the required analysis will be reported in future accounting statements.

The overall level of income generated under these leases was £2,914,000 in 2010/11 (£3,316,000 in 2009/10).

37 Private Finance Initiatives and similar contracts

The Building Schools for the Future (BSF) project involves the extensive building, remodelling and operation of a number of schools across various sites in Blackburn with Darwen together with ICT managed services. The total programme includes 3 schools funded under the Private Finance Initiative (PFI), and 2011/12 will be the first year of a 25 year contract for the construction and maintenance of those schools.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fees payable being made if facilities are unavailable. The contractor is required to construct and maintain the schools in line with agreed standards, and to procure and maintain the plant and equipment needed to operate the schools. The buildings will be transferred to the Council at the end of the contract for nil consideration, in the same condition as at the beginning of the concession.

The council will make an agreed annual payment which is increased by inflation each year. Payments remaining to be made under the PFI contract at 31 March 2011 are as follows:

	Payment for services	Reimbursement of capital expenditure	Interest	Total
	£'000	**£'000**	**£'000**	**£'000**
Pleckgate School				
Payment in 2011/12	2,095	(2,350)	2,591	2,336
Payment within 2 to 5 years	3,281	1,670	11,064	16,015
Payment within 6 to 10 years	4,471	2,792	12,756	20,019
Payment within 11 to 15 years	4,197	4,781	11,041	20,019
Payment within 16 to 20 years	4,949	6,833	8,237	20,019
Payment within 21 to 25 years	5,220	10,720	4,079	20,019
Payment within 26 to 30 years	250	1,292	130	1,672
Witton Park / New East Blackburn Schools				
Payment within 2 to 5 years	6,128	1,074	14,706	21,908
Payment within 6 to 10 years	7,443	5,931	16,781	30,155
Payment within 11 to 15 years	7,761	8,068	14,326	30,155
Payment within 16 to 20 years	8,231	11,282	10,642	30,155
Payment within 21 to 25 years	9,220	15,174	5,761	30,155
Payment within 26 to 30 years	2,284	5,515	555	8,354

38 Termination benefits

During 2010/11, a number of employees applied for Early Retirement or Voluntary Redundancy, in order to assist the Council in its need to reduce expenditure in future years. In addition the Council terminated the contracts of a smaller number of employees in the year. As a consequence the Council has incurred liabilities of £1.900M in respect of additional pension costs and £1.735M in respect of redundancy costs. Of the latter total, the following amounts of redundancy costs were payable to the Directors shown below, and have been included within the amounts shown for compensation for loss of office in Note 30:

	£
Executive Director of Housing Market Renewal	30,000
Director of Legal Services	30,000
Strategic Director – Neighbourhoods, Housing and Customer Services	5,872
Assistant Director – Culture Leisure and Sport	37,163
Strategic Director of Regeneration and Environment	46,897
Strategic Director of Social Care and Health	33,517

39 Post employment benefits

Pension schemes accounted for as defined contribution schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/11 the Council paid £7,976,385 to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.10% of pensionable pay. The figures for 2009/10 were £7,194,997 and 14.09%. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed below.

Defined benefit pension schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that the employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Lancashire County Council (LCC) - this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension's liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions in relation to retirement benefits

The Council recognises the costs of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		**Discretionary Benefits Arrangements**	
	2010/11	**2009/10**	**2010/11**	**2009/10**
	£000	**£000**	**£000**	**£000**
Comprehensive Income and Expenditure Statement				
Cost of services:				
- current service cost	14,256	8,734	0	0
- past service costs	(28,101)	113	(398)	0
- settlements and curtailments	112	649	0	0
Financing and investment income and expenditure:				
- interest cost	27,616	24,356	465	497
- expected return on scheme assets	(19,645)	(14,476)	0	0
Total post employment benefit charged to the surplus or deficit on the provision of services	(5,762)	19,376	67	497

Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
- actuarial gains and losses	(29,893)	61,931	(828)	1,456
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(35,655)	81,339	(761)	1,953
Movement in Reserves Statement				
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	18,655	(7,543)	573	173
Actual amount charged against the General Fund Balance for pensions in the year				
- employers' contributions payable to scheme	**12,893**	**11,833**		
- retirement benefits payable to pensioners			**640**	**670**

Past service and curtailment costs (gains) are normally the result of increased benefits being paid in the event of pension scheme members retiring early during the year. They may result either from "early retirement strains" (the cost of paying the members' benefits earlier than had been anticipated), or from additional benefits being awarded on retirement. Those costs which result from redundancy/efficiency retirements are classed as curtailment costs, with any other amounts being regarded as past service costs. Any augmentation of benefits for active members would also give rise to a past service cost.

During 2010/11, it was announced that future pension increases under the Scheme are to be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). This has been treated by the actuaries as a change in the provisions of the Scheme, which has given rise to a significant negative past service cost, and a consequent reduction in the year end liabilities.

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a gain of £30,721,000 (a loss of £63,387,000 in 2009/10).

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme		**Unfunded liabilities: Discretionary Benefits**	
	2010/11	**2009/10**	**2010/11**	**2009/10**
	£000	**£000**	**£000**	**£000**
Opening balance at 1 April	**(491,527)**	**(342,200)**	**(8,620)**	**(7,337)**
Current service cost	(14,256)	(8,734)	0	0
Interest cost	(27,616)	(24,356)	(465)	(497)
Contributions by scheme participants	(4,812)	(4,756)	0	0
Past service cost/(gain)	28,101	(113)	398	0
Actuarial (gains)/losses	33,607	(122,523)	828	(1,456)
Curtailments	(112)	(649)	0	0
Benefits/transfers paid	15,836	11,804	640	670
Closing balance at 31 March	**(460,779)**	**(491,527)**	**(7,219)**	**(8,620)**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2010/11	**2009/10**
	£000	**£000**
Opening balance at 1 April	**304,869**	**225,016**
Expected rate of return	19,645	14,476
Actuarial (gains)/losses	(3,714)	60,592
Employer contributions	13,533	12,503
Contributions by scheme participants	4,812	4,756
Benefits/transfers paid	(16,476)	(12,474)
Closing balance at 31 March	**322,669**	**304,869**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £24,679,000 (£75,068,000 in 2009/10).

Local Government Pension Scheme history

	31 March 2011	**31 March 2010**	**31 March 2009**	**31 March 2008**	**31 March 2007**
	£000	**£000**	**£000**	**£000**	**£000**
Present value of liabilities					(362,983)
Local Government Pension Scheme	(460,779)	(491,527)	(342,200)	(404,643)	
Discretionary Benefits	(7,219)	(8,620)	(7,337)	(8,732)	
Fair value of assets in the Local Government Pension Scheme	322,669	304,869	225,016	278,890	263,637
Deficit in the scheme	(145,329)	(195,278)	(124,521)	(134,485)	(99,346)
Local Government Pension Scheme	(138,110)	(186,658)	(117,184)	(125,753)	
Discretionary Benefits	(7,219)	(8,620)	(7,337)	(8,732)	
Total	(145,329)	(195,278)	(124,521)	(134,485)	(99,346)

The liabilities show the underlying commitments that the Council has in the long-run to pay post employment (retirement) benefits. The total liability of £468M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £145M. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £11,600,000. Expected contributions for the Discretionary Benefits Scheme in the year to 31 March 2011 are £640,000

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Mercer Human Resources Consulting Limited, an independent firm of actuaries, estimates for the Lancashire County Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2010/11	**2009/10**	**2010/11**	**2009/10**
	£000	**£000**	**£000**	**£000**
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%	7.5%		
Government Bonds	4.4%	4.5%		
Other Bonds	5.1%	5.2%		
Property	6.5%	6.5%		
Cash/Liquidity	0.5%	0.5%		
Other	7.5%	7.5%		
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Male	21.6	21.2		
- Female	24.2	24.1		
Longevity at 65 for future pensioners				
- Male	23.0	22.2		
- Female	25.8	25.0		
Financial assumptions:				
Rate of RPI inflation	3.4%	3.3%	3.4%	3.3%
Rate of CPI inflation	2.9%	2.8%	2.9%	2.8%
Rate of increase in salaries	4.9%	5.05%		
Rate of increase in pensions	2.9%	3.3%	2.9%	3.3%
Rate for discounting scheme liabilities	5.5%	5.6%	5.5%	5.6%
Take up of option to convert annual pension into retirement lump sum	50%	50%		

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011 %	**31 March 2010 %**
Equities	64	66
Government Bonds	7	7
Bonds	14	12
Property	8	5
Cash/Liquidity	1	4
Other	6	6
	100	100

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 and previous years can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	%	%	%	%	%
Differences between the expected and actual return on assets	1.56	19.87	(33.9)	(3.0)	(0.7)
Experience gains/(losses) on liabilities	7.30	0	0	(0.4)	0

40 Contingent liabilities and contingent assets

Contingent liabilities

As at 31 March 2011, the Council had 4 material contingent liabilities:

(a) Following the liquidation of Municipal Mutual Insurance (MMI) in 1992/93 there are a number of claims outstanding which may not be resolved for many years. The Council may be liable to make a contribution towards any deficits incurred by MMI Limited both in relation to the former Blackburn Borough Council and Lancashire County Council. The maximum potential liability in relation to the former Blackburn Borough Council claims as at 31st March 2011 was £1,973,000.

(b) The Council has not received a formal claim from Twin Valley Homes (TVH) relating to the cost of removing asbestos alleged to be present in housing properties transferred from the Council in March 2001. However, it is alleged that the Council knew of the presence of asbestos (a defined dangerous substance), but did not disclose the fact to TVH. This has been alleged for some time, but no formal action has been instigated by TVH.

The legal arguments surrounding this issue are complex and the claim is strongly denied by the Council. The question of liability and quantification of the actual costs incurred by TVH in remedying what it regards as a breach of the warranty given by the Council have not been evidenced by TVH. Legal work has been done to ascertain whether the potential claim can be substantiated. The work is currently in abeyance, as there is no indication of a claim being pursued, but it is prudent to report this as a continuing potential (low risk) liability. Informal indications suggest a claim of not more than £4,000,000 to £5,000,000.

(c) Waste Disposal company SITA are understood to have made a claim against Lancashire County Council (LCC) in respect of contracts in existence before Local Government Reorganisation in 1998. No proceedings have been issued against Blackburn with Darwen Council, although it is a remote possibility that SITA or LCC could claim against the Council in the future. A contingent liability of £500,000 is estimated, but it is regarded as very low risk as LCC have indicated the matter has not been raised for some time now.

(d) The Council has faced a reduction in Area Based Grant of £4,000,000 during the year and a decrease in £33,000,000 in central government funding in 2011/12, with further reductions anticipated in future years. A two year budget strategy for both 2011/12 and 2012/13 was approved in March 2011, which included a programme of service reductions, some of which began to be implemented immediately. As a consequence the Council has terminated the contracts of a smaller number of employees during 2010/11, with further redundancies due to be made. A contingent liability of £1,600,000 is estimated, which is made up of £800,000 in respect of additional pension costs and £800,000 in respect of redundancy costs.

Contingent assets

As at 31 March 2011, the Council had no material contingent assets to disclose.

41 Trust Funds

The Council acts as a sole or custodian trustee for two trust funds, and as one of several trustees for a further two funds. In neither case do the funds represent assets of the Council, and they have not been included in the Council's Balance Sheet. The Council also administers a fund on behalf of third parties.

The Trust Funds generated a total income of £1,325 with nil associated expenditure, and at the year end total assets of the funds were £78,608.
The third party funds are made up of savings and property of residents in the Council's care. The capital value of these funds at 31 March 2011 was £31,000

42 Financial instruments

Categories of Financial Instruments carried on the balance sheet are as follows:

31 March 2010 £000 Long Term	31 March 2010 £000 Current	Category	31 March 2011 £000 Long Term	31 March 2011 £000 Current
		Assets		
1,437	5,165	Investments (loans and receivables)	929	11,185
0	4,544	Cash and Cash Equivalents (loans and receivables – includes bank overdraft)	0	3,773
27,142	7,453	Debtors (loans and receivables – excludes payments in advance and public sector / statutory elements)	26,763	6,703
		Liabilities		
99,348	16,106	Borrowings (financial liabilities at amortised cost)	99,351	14,262
0	17,543	Creditors (financial liabilities at amortised cost – excludes receipts in advance and public sector / statutory elements)	0	18,335

Income, Expense, Gains and Losses on financial instruments were as follows:

2009/10 £000 Financial Liabilities at amortised cost	2009/10 £000 Financial Assets - loans and receivables	2009/10 £000 Total		2010/11 £000 Financial Liabilities at amortised cost	2010/11 £000 Financial Assets - loans and receivables	2010/11 £000 Total
6,687	0	**6,687**	Interest expense	6,476	0	**6,476**
6,687	**0**	**6,687**	**Total expense in Surplus or Deficit on Provision of Services**	**6,476**	**0**	**6,476**
0	(1,904)	**(1,904)**	Interest income	0	(1,753)	**(1,753)**
0	0	**0**	Gains on de-recognition #	0	(399)	**(399)**
0	**(1,904)**	**(1,904)**	**Total expense in Surplus or Deficit on Provision of Services**	**0**	**(2,152)**	**(2,152)**
6,687	**(1,904)**	**4,783**	**Net gain/loss for the year**	**6,476**	**(2,152)**	**4,324**

Final cash payment on wind up of Intack Services Limited

Fair value of financial assets and liabilities

For each class of financial assets and liabilities, the Council is required to disclose the “fair value” of that class of assets and liabilities in a way that permits it to be compared with its carrying amount within the Balance Sheet. The “fair value” can be assessed by calculating the present value of the cash flows that will take place over their remaining terms.

For Creditors and Debtors, and for short term Cash positions, the carrying value is accepted to be a reasonable approximation of fair value. For Borrowings and Investments, a separate assessment of fair value has been undertaken.

For the Investment element within Loans and Receivables, fair values have been prepared by the Council’s treasury advisors, but there is no material difference between the fair value and the carrying value (i.e. the value at which the investments are shown in the balance sheet) primarily because of the relatively short duration to maturity of those investments.

For **Financial Assets**, therefore, there is no material difference between their carrying value in the accounts, as set out above, and their fair value.

For **Financial Liabilities**, there are material differences, and these are summarised in the table below.

31/03/2010 Carrying Value £000	**31/03/2010 Fair Value £000**		**31/03/2011 Carrying Value £000**	**31/03/2011 Fair Value £000**
90,787	97,087	PWLB loans	88,787	97,666
24,240	27,980	Market loans (with call options)	24,399	29,572
427	331	Other stock	427	338
115,454	**125,398**	**Total Borrowings**	**113,613**	**127,576**
17,543	17,543	Creditors	18,335	18,335
132,997	**142,941**	**Total Financial Liabilities at Amortised Cost**	**131,948**	**145,911**

In the case of **PWLB loans**, fair values were provided by the PWLB, using premature repayment rates.

For **Market Loans**, fair values have been prepared by the Council's treasury advisors, relating to PWLB loan repayment rates, discounted in line with in-year experience. This gives an indicative exit price (rather than an indicative purchase price) and is more consistent with the PWLB's own methodology for advising fair values. It should be noted that the carrying values in respect of a number of market loans with "stepped" (initially lower) interest rates have already been amended (see Note 1 i))

In the case of **other stock**, fair values have been prepared by the Council's Treasury advisors in respect of the only material element, an issue of irredeemable stock, on the basis of the discount rate for undated gilts.

The overall fair value of the Council's debt is higher than the carrying value because, predominantly, the debt held is at interest rates higher then the rates that were available for comparable debt at the balance sheet date. This increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

43 The nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the risk that other parties may fail to pay amounts due to the Council.
- Liquidity risk – the risk that the Council may not have funds available to meet commitments to make payments.
- Market risk – the risk that financial loss may arise as a result of changes in financial markets, e.g. movements in interest rates.

The Council's risk management programme recognises these risks and seeks to minimise any potential adverse effects on the resources available to fund services. Risk management in relation to the finance function is carried out by a central Treasury Management Group, under policies approved as part of the Council's Annual Treasury Management Strategy.

<u>Credit risk</u>
Credit risk arises from deposits made with financial institutions, as well as credit exposure to the Council's customers. The safeguarding of the Council's investments is the main priority of the Council's Investment Strategy, which is established before the start of each year, alongside the setting of the Council's annual budget. This sets fixed limits as to the duration of loans and amounts invested, using annually reviewed criteria, based on independently monitored credit rating scores for financial institutions. This lending list is reviewed frequently in line with the latest information from the Council's treasury advisors. The highest value and longest dated investments are only made in very highly rated institutions. Limits were applied to investments in foreign-domiciled banks, and to overall balances in the building society sector.

Working within the established criteria, the categories of investment made and key limits relating to them were
(a) AAA rated money market funds – instant access – upper limit £5 million per fund,
(b) credit rated banks and building societies – limits in three bands, ranging from minimum short-rating F1 (limits £3 million and 3 months) to minimum long-rating AA (limits £5 million and 364 days),
(c) unrated building societies with minimum asset size £500 million (maximum £1 million and 3 months),
(d) deposits with the Government's Debt Management Office (no limits).

Separate criteria applied to longer term investments (over one year), but no long term investments were made during the year.

The Council has not suffered any loss due to default by financial institutions, and has controls in place to minimise the risk of default in future. For example, lending limits are utilised to limit the extent of any loss, should a default take place.
In response to market conditions, the Council did not undertake any new borrowing during the financial year, thereby reducing the potential credit risk arising from placing deposits.

An assessment was undertaken, by the Council's treasury advisors, of the value of the Council's exposure to credit risk on its investment portfolio, based on credit rating agency determinations of historical exposure to risk by rating category and outstanding duration of debt. Even making an allowance for current market conditions, the value is not material.

With regard to the Council's interaction with its customers, where practicable, payments are sought by direct debit in order to minimise arrears and reduce credit risk. The Council considers the risk of exposure to non-payment and has made provision accordingly.

The provision made against estimated credit risk is shown in the table below:

Value as at 31/03/10	**Provision Against Estimated Credit Risk**		**Value as at 31/03/11**	**Provision Against Estimated Credit Risk**
£000	**£000**		**£000**	**£000**
1,437	0	Long Term Investments	929	0
14,320	0	Investments with banks and financial institutions (including cash equivalent balances)	15,176	0
5,531	1,702	Customers (Debtors)	6,703	2,118
21,188	**1,702**	**TOTAL**	**22,808**	**2,118**

Included in the customer debt above were debts past their due date for payment, broken down by age as follows:

31/03/10		**31/03/11**
£000		**£000**
347	Less than three months	380
491	Three to twelve months	723
909	One to two years	446
897	Over two years	1,510
2,644		**3,059**

<u>Liquidity risk</u>
Working within the "Prudential Code" (a mandatory regime which ensures that local authorities manage their capital investment and associated borrowing decisions within affordable limits) and having ready access to borrowings from the Public Works Loans Board, there is no significant risk that the Council will not be able to raise borrowing to meet its long term financial commitments.

The main longer term risk is that the Council may find itself having to replenish a significant part of its borrowings at a time of unfavourable interest rates. This risk is managed by limiting the proportion of debt coming to maturity at any one time. The maturity structure of the Council's borrowings is set out below:

31/03/10		**31/03/11**
£000		**£000**
16,106	Short Term (under 1 year)	14,262
1	Maturing in 1-2 years	7
6,154	Maturing in 3-5 years	13,379
13,386	Maturing in 6-10 years	6,159
79,807	Maturing in more than 10 years	79,806
115,454		**113,613**

The Council's day to day cash flows are monitored closely and projections continually updated. The Council's Investment Strategy - whilst prioritising the security of Council investments, and seeking to optimise net interest earned - recognises the need to maintain sufficient liquidity to minimise the risk of difficulty of making payments at any point in the year. A significant element of monies invested is placed on call, or for relatively short durations. The good standing of all local authorities as credit risks, and the prudent management of the Council's budget as a whole, ensures that the Council is in a position to borrow short term to meet day to day expenses, when and if necessary.

Market risk

The main market risk facing the Council is of adverse movement in interest rates. The impact of changes in interest rates on the Council is complex.

For example, an **increase** in interest rates would have the following effects:

- Borrowing at variable rates – increased interest expense would be charged to the Surplus or Deficit on the Provision of Services
- Borrowing at fixed rates – the fair value of borrowing liabilities would fall
- Investment at variable rates – increase interest income would be credited to the Surplus or Deficit on the Provision of Services
- Investment at fixed rates – the fair value of investment assets would rise (though this still may not be material)

Over recent years, relatively low interest rates have meant that the Council has been able to take borrowing at very competitive fixed rates, and has reduced its exposure to the risk of interest rate increases on borrowing (but increasing its exposure to a risk of not benefiting from any future interest rate reductions).

In 2010/11, if interest rates had been 1% higher with all other variables held constant, interest earned on investments would have increased by around £325,000. As no new borrowing was undertaken in 2010/11, and because there was very little variable rate debt carried by the Council, a 1% interest rate increase would have had only a limited impact, increasing borrowing costs by £20,000. Such costs would have impacted on the Income and Expenditure Account.

The impact of a 1% fall in interest rates would be as above, but with the movements being reversed.

A 1% change in interest rates would also impact on the fair value of fixed rate investments and borrowings, which can be considered by varying the discount rates used in their estimation. In the case of the fair values of investments, this would remain relatively immaterial. It would be more significant for the fair value of borrowings, where a 1% increase in rates would decrease the fair value by around £4 million and a 1% decrease in rates would increase the fair value by over £5 million. This would not impact on either Surplus or Deficit on the Provision of Services, or the Movement in Reserves Statement, but only on the values recognised in Note 42.

The Council has a number of strategies to manage interest rate risk, for example limiting the total level of net borrowing (borrowing less investment) which is at variable rates, and setting an upper limit for net borrowing at fixed interest rates. It also employs treasury advisors to assist with taking investment and borrowing decisions, including such matters as debt restructuring (repaying debt early and taking out replacement debt on current terms - depending on interest rates available at various borrowing durations). The impact of potential changes in interest rates is considered in the setting of the annual budget, and is monitored across the year, to allow any adverse changes to be accommodated.

COLLECTION FUND INCOME AND EXPENDITURE STATEMENT

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992). The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2009/10			2010/11	
£'000	**Income**	**Notes**	**£'000**	**£'000**
43,935	Income from Council Tax	1		44,506
	Transfer from General Fund in respect of			
13,741	Council Tax benefits			14,583
38,569	Income collectable from business ratepayers	2		39,143
	Contributions			
(73)	adjustment of previous years' Council Tax	3		(217)
96,172				98,015
	Expenditure			
	Precepts and demands			
5,591	Lancashire Police Authority		5,763	
2,456	Lancashire Combined Fire Authority		2,508	
48,979	Blackburn with Darwen Borough Council		50,089	
				58,360
	Business rates			
38,331	payment to national pool		38,903	
238	costs of collection		240	
				39,143
	Provision			
895	for non-collection of Council Tax			749
96,490				98,252
(318)	**Surplus/(Deficit) for the year**			(237)
335	**Fund balance brought forward**			17
17	**Fund balance carried forward**			(220)
	Allocated to:			
14	Blackburn with Darwen Borough Council			189
2	Lancashire Police Authority			22
1	Lancashire Combined Fire Authority			9
17				220

1 Income from Council Tax

The Council Tax is a tax based on property valuations with each domestic property being allocated to one of eight bands (A to H) according to its open market value at 1st April 1991. There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. Specific discounts and exemptions are made, in accordance with Government regulations, for a variety of reasons including single person occupation, physical disability, status (e.g. for students or care workers) and empty properties.

The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts and exemptions where applicable) converted to an equivalent number of Band D dwellings was calculated as follows:

Estimated 2010/11 Council Tax Base (before non-collection):

Band	Chargeable dwellings	Reductions/ exemptions	Equivalent number	Ratio to Band D:	Band D equivalent:
A-	82	(3)	79	5/9	44
A	33,336	(4,325)	29,011	6/9	19,341
B	8,448	(818)	7,630	7/9	5,934
C	7,943	(621)	7,322	8/9	6,508
D	4,104	(252)	3,852	9/9	3,852
E	2,015	(103)	1,912	11/9	2,337
F	781	(47)	734	13/9	1,060
G	541	(37)	504	15/9	840
H	46	(5)	41	18/9	82
	57,296	**(6,211)**	**51,085**		**39,998**

2 Income collectable from business ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform (national) rate. A small business multiplier has also been introduced to assist qualifying small businesses. The total amount, after deduction of certain reliefs and other allowable adjustments, and less an allowance for the Council's collection costs, is paid to a central pool (the NDR pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of resident population.

The total non-domestic rateable value for the Council's area at 31st March 2011 was £124,023,267 (£101,007,534 in 2009/10). For 2010/11, the standard national non-domestic multiplier for the year was 41.4 pence (48.5 pence in 2009/10), and the small business rate multiplier was 40.7 pence (48.1 pence in 2009/10).

3 Precepts and Demands on the Fund

There is a statutory requirement for the Council to prepare an estimate on the 15th January each year of the surplus or deficit expected to arise on the Collection Fund at the end of the financial year. This estimate surplus/deficit is distributed to / recovered from the "billing authority" (Blackburn with Darwen Borough Council) and the major "precepting authorities" (Lancashire Police Authority and Lancashire Combined Fire Authority) as part of the following year's Council Tax figure in proportion to their respective demand or precept on the Collection Fund.

When setting the Council Tax for 2010/11 (in January 2010) the Council estimated that there would be a surplus carried forward from 2009/10 of £216,772 (£72,742 surplus was estimated in January 2009), which was distributed as shown in the table below:

2009/10 £		2010/11 £
62,675	Blackburn with Darwen Borough Council	186,182
6,979	Lancashire Police Authority	21,254
3,088	Lancashire Combined Fire Authority	9,336
72,742		216,772

This version of the statement of accounts is presented in advance of the approval by the Audit Committee of the Annual Governance Statement. The published version will include, on these pages, the approved Annual Governance Statement as signed by the Leader of the Council and the Chief Executive.

Accounting policies	-	Those principles, bases, conventions, rules and practices applied by the Council, which define the process by which transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or Balance Sheet it is to be presented.
Accruals	-	The concept that income and expenditure is recognised as it is earned or incurred, not as money is received or paid.
Actuarial gains and losses	-	For a defined benefit pension scheme, these are the changes in actuarial deficits or surpluses that arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.
Approved budget	-	The planned expenditure and income, for the financial year in the case of revenue, and over the life of the project in the case of a capital scheme.
Audit Commission	-	An independent body, established under the Local Government Finance Act 1982. The Audit Commission is responsible for the appointment of external auditors to local authorities, has a duty to ensure that local authorities make proper arrangements to secure economy, efficiency and effectiveness in their use of resources and has the power to undertake special “value for money” studies.
Best Value Accounting Code of Practice (BVACOP)	-	A Code of Practice prepared to provide accounting guidance on financial reporting to stakeholders which is designed to enhance the comparability of local authority financial information. The Code represents proper accounting practice for the purposes of Best Value reporting.
CIPFA	-	Chartered Institute of Public Finance and Accountancy. The Institute provides financial and statistical information for local government and other public sector bodies and advises central government and other bodies on local government and public finance matters.
Capital charge	-	A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.
Capital employed	-	The funds used by the Council to finance its long term operations.
Capital expenditure	-	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
Contingent asset	-	A possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council’s control.
Contingent liability	-	EITHER a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council’s control, OR a present obligation arising from past events where it is not probable that a transfer of economic benefits will be

		required or the amount of the obligation cannot be measured with sufficient reliability.
Corporate and democratic core	-	Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.
Current service cost (pensions)	-	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
Curtailment	-	For a defined benefit pension scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.
Defined benefit scheme	-	A pension or other retirement benefits scheme, where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Depreciation	-	The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes.
Equity instrument	-	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities (such as an equity share in a company) – will only apply to investments in other entities held by the Council.
Expected rate of return on pensions assets	**-**	For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
Fair Value	-	The price at which an asset could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase cost of the asset
Finance lease	-	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.
Financial asset	-	A right to future economic benefits controlled by the Council that is represented by: cash; an equity instrument of another entity; a contractual right to receive cash (or other financial asset) from another entity; or a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Council.

Financial liability	-	An obligation to transfer economic benefits controlled by the Council that is represented by: a contractual obligation to deliver cash (or other financial asset) to another entity; or a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Council.
Financial year	-	The Council's financial year runs from the 1st April through to the following 31st March.
General Fund	-	The main revenue fund of a local authority, which includes the net cost of all services financed by local tax payers and Government grants.
International accounting standards	-	These accounting standards prescribe the methods by which all published accounts should be prepared and presented, and will over time replace UK accounting standards. Includes International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS)
Impairment	-	A reduction in the value of a fixed asset below its carrying amount in the Balance Sheet.
Infrastructure assets	-	Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
Interest costs (pensions)	-	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
LASAAC	-	Local Authority (Scotland) Accounts Advisory Committee.
Landfill Allowances Trading Scheme (LATS)	-	This scheme, which relates to Waste Disposal Authorities (WDAs) in England, aims to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. The scheme allocates tradable landfill allowances to each WDA up to an upper limit or "cap". If the WDA receives more allowances than it needs it may "trade" with other WDAs. Conversely, if a WDA uses more landfill than its "cap" it must either purchase allowances from another WDA or pay a financial penalty to DEFRA.
LEA	-	Local Education Authority – a local authority with the statutory responsibility for securing the provision of education in its area.
Minimum Revenue Provision	-	The minimum amount which must be charged to the Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government and Housing Act 1989.
Net book value	-	The amount at which fixed assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided fro depreciation.
Net current replacement cost	-	The cost of replacing or recreating the particular asset in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net expenditure	-	The cost of providing a service after the deduction of any income.
Net realisable value	-	The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
Operating lease	-	A lease other than a finance lease.
Operational assets	-	Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.
Past service cost	-	For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.
Post-employment benefits	-	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of the employment. Includes pensions but not termination benefits payable as a result of redundancy/ voluntary redundancy, because these are not given in exchange for services rendered by employees.
Precept	-	A method by which local parishes, Lancashire Police Authority and Lancashire Combined Fire Authority obtain the income they require by Blackburn with Darwen Borough Council adding the precept to its own Council Tax and paying over the appropriate cash collected.
Property, plant and equipment	-	Tangible assets (i.e. assets with physical substance) held by the Council for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used for more than one period.
Provision	-	An amount set aside by the Council for any liability of uncertain timing or amount that has been incurred.
Public Works Loan Board (PWLB)	-	A central government agency which provides long and short term loans to local authorities at interest rates slightly higher than those at which the government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source.
Related parties	-	Two are more parties are related parties when at any time during the financial period one party has direct or indirect control of the other party, or the parties are subject to common control by the same source. Also, where one party has influence over the financial and operational policies of the other, or both parties are subject to the influence from the same source, to an extent that they might be inhibited from pursuing their own separate interests.
Related party transactions	-	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. The materiality of related party transactions should be judged not only in terms of their significance to the Council, but also in relation to its related party.

Remuneration	-	All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.
Reserve	-	Amounts set aside for purposes falling outside the definition of a provision are considered as reserves.
Revenue expenditure funded from capital under statute	-	Expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset, e.g. private sector housing improvement grants.
Revenue Support Grant	-	A Government grant in aid of local authority services generally. It is based on the Government's assessment of how much the Council needs to spend in order to provide a standard level of service.
Termination benefits	**-**	Amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.
The Code	-	Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (Based on International Financial Reporting Standards).